

so that the conversion of capital into consumer purchasing power in the form of wages becomes less and less effective. Also, with the spread of participation in security speculation among all classes, more and more purchasing power is withheld from consumption and subject to subsequent loss during deflation. On the whole, however, I think the balance of loss tends increasingly to fall on the side of savings or investment even during inflation.

At any rate, when the new productive capacity comes into use production again runs ahead of purchasing power and the decline of prices and depression set in. The capital savings or credit that have gone into consumer purchasing power during the boom are then registered on the investors' books as losses—written off,—by the depreciation of inventories, of security values, by defaults, moratoria and business failures. There is an additional direct conversion of capital or savings into consumption as bank deposits are drawn upon for current needs. Foreign loans made during inflation periods, not offset by balancing imports of goods, are another phase of capital waste, since the proceeds are really paid out to domestic workers and the losses borne by investors during depression. All that is, of course, a vast redistribution of purchasing power in which capital is dissipated or changes hands at reduced value, but in the meantime the difference has in large part passed into consumption during the boom. When the profit requirements or overhead are sufficiently reduced to be met out of the current level of purchasing power plus consumers' savings, business recovery begins and the cycle starts again.

During the depression labor, of course, loses by unemployment and lowered wages as much as or more than it gained in the transformation of capital during the boom; but this is offset in part by lowered prices and in part by diversion of capital funds into consumer purchasing power through private channels of charity and public channels of borrowing and taxation for unemployment relief. So here, too, it is probable that the balance of gain is on the side of the consumer and of loss on the side of savings, so far as the money accounting goes.

This process does work out on the whole and after a fashion, to the extent that it does result in a continuous dissipation of capital and confiscation of savings and profits, to the end that consumption in the long run is balanced with output. The cycle is essentially only a phase or aspect of the process of diffusion or distribution of purchasing power in a capitalistic

society. That process is continuous; booms and depressions are only an extreme or special manifestation of it. Year in and year out, in all phases of the cycle, consumer expenditures run ahead of the national income by a practically constant percentage which represents the chronic wastage or degradation of capital, that is, its reversion to consumer income. That is the only way competitive capitalism gets along at all.

But obviously, in this economic organization, this is a very disturbing and increasingly dangerous process, even though one cannot be sure of oneself in calling it wasteful. There is, of course, the obvious loss or waste of unrealized potential productive power during depression, which implies a slower rate of progress in terms of rising standards of life. But whether unrealized productive power can be called waste is a question. More immediately serious are certain consequences that threaten to disrupt the structure and organization of the system. These are essentially psychological. First, the cumulative sense of insecurity which this cyclical process of capitalistic confiscation sets up in both investors and workers has become a powerful force preventing the smooth operation of the financial mechanism on the one hand and the industrial on the other. Hoarding in all its forms, capital strikes, flight of capital, all threaten a complete breakdown of the banking system; and the sense of insecurity in the worker profoundly affects consumer demand, regardless of purchasing power or prices, and so threatens the very existence of organized large-scale industry. Finally, of course, this sense of insecurity sublimates itself in social aggression, political disturbance and international conflict.

So, no one can safely recommend this process as a permanent scheme for solving the essential economic problem involved. Competitive capitalism must be recognized as an essentially unstable system, bound to be transformed in one direction or another. The underlying problem is, what direction?

I myself do not think that the direction of communism or any of the many forms of centralized socialization is the way out. These strike me as fundamentally as unstable systems as present-day capitalism, but for somewhat different reasons. Fundamental forces, purely physical in character, arising out of the consequences of the use of infinitely divisible and widely distributable energy, will determine the form of the stable system that will evolve, and that will be a greatly diffused, decentralized, highly localized and nationalistic capitalism. Everything that runs

counter to this tendency, whether communism or capitalism as we know it, will be unstable and will not survive.

III

One immediate problem of stabilization in its national aspects is to deal with the transition phase, the period of perhaps twenty or fifty years, that lies ahead. Let me say, parenthetically, that I see no permanent results for stabilization from this depression. It will be followed by at least one boom, and possibly several more, in the grand style of the last; perhaps shorter and sharper, but not essentially different. Nothing in the situation as regards essentials of stability has been changed. We have merely accumulated the makings in this country of another inflation on a vast scale and nobody will stop it. We may have some changes in our banking system, but these will only help intensify the instability, not control it. We may also have some attempt to pluck a few feathers of profits from the capitalistic goose to make some slight cushions for labor through unemployment insurance reserves, but these will not be adequate to deal with the essential problem of balancing consumer purchasing power with production.

Undoubtedly the next cycle or two of boom and depression will be distinguished only by a more intensive drive toward social legislation in all its forms; that is, legislative schemes for ameliorating or easing the strain of unbalanced production and absorption upon employes by diverting a part of excess savings into indirect consumption in the form of free social services. But this will involve greater centralization, intensify the concentration of industry and run counter to the fundamental physical and psychological conditions and economic requirements of stability. It will tend only to run to state capitalism, solidify further the centralized capitalistic structure already too rigid, and cause its catastrophic collapse and disintegration instead of the slow transformation that is desirable. In any case it cannot make for stability, save in the sense of petrification.

In this period, too, we may have—as we have had during this depression—a great deal of lip-service to the slogan of "planning." Some of this will be sincere and, in certain restricted aspects, successful effort in individual concerns; possibly there may be some vague gesture toward it on a national scale by setting up a sort of economic council of stuffed shirts supported by a staff of slide-rule operators; but probably most

of this will pass out of the picture in the next boom period.

At any rate the only possible or probable application of the planning concept will be in industry, through the trade organizations for the purpose of negative stabilization in the sense of production control and price fixing with employe protective measures thrown in incidentally as a sop to labor and suspicious legislators. This "planning" *a la* cartel is an extreme symptom of capitalistic self-defense. It has for its essential purpose to check the process of competitive confiscation which is the only automatic safety valve by which the survival of the system is assured; and it further tends to sterilize the element of technological improvement implicit in that process. Moreover, it inevitably implies an intensification of centralization, and so cannot prove to be of any permanent importance because the undercurrent is in the opposite direction.

But, quite apart from the fact that the fundamental forces that have set in are opposed to industrial centralization and concentration (nationally as well as internationally), and also apart from the fact that the idea of deliberate production control or organized sabotage sanctioned by law is fundamentally fallacious, there is a more immediate and obvious weakness in the concept of planning as applied to industrial management. This lies in its naive assumption that industrial management or organization *per se* can have any effective influence on the business cycle, everything else remaining the same. As a matter of fact I see no evidence at all that this depression was due in any measure to defects in industrial management, except possibly for some slight follies in financial policies of corporations, for which they were not to blame in the first instance. Nor do I believe that there is anything of vital importance that industrial management itself can do to prevent catastrophes of this sort. The truth is that your cycle starts in forces that lie almost wholly outside the sphere of influence of industrial management, and no stabilization effort is worth discussing seriously which does not deal with them first.

These forces—those of inflation and deflation—center in the price level, and they originate in and can be controlled only through the financial system in the broadest sense, not through the industrial structure and its operating management. The utmost that industrial management does is to play into them and intensify them to a moderate degree. By the financial system I mean, first, the private banking organization, including the regular banking structure, the investment bank-