The State issuing the loan may be a foreign country. In that case it is clear that the operation will not relieve the economic system of the lending country unless it leads to orders for the industries of that country.

While it is true that public loans may mitigate the extent of under-consumption during a depression, it must not be forgotten that the issue of the bonds for these loans provides large financial profits which will certainly not be used to stimulate demand.

The above survey, of necessity extremely brief, will certainly give rise to certain objections, the importance of which the writer fully recognises. As they are naturally linked up with current thought, they can be readily anticipated and replied to at once.

Against the theory of the relative excess of saving the very plausible argument will be brought forward that capital which brings in interest, however small, is not and cannot be surplus capital, since it finds remunerative employment. In the first place, this argument loses its value in the case of capital which is not employed or which, as in the case of sight deposits in the bank, receives interest far below the current rate because it is available on demand. This is true *a fortiori* in the case of notes which are hoarded or sight deposits without interest held by banks of issue. Moreover it must not be forgotten that the gross rate of interest includes a risk premium. Towards the end of the depression, when the incomes of capitalists have fallen to a very low level, the risk premium also begins to fluctuate. In other words, capitalists begin to be more anxious about the dwindling of their incomes than about the hazards of investment. They begin to take risks.[9] Examples of this can easily be found. After the great depression of the eighties of last century English investors were easily persuaded to make enormous loans to Argentina; this somewhat artificial and very brief boom ended in the crash of 1890. The same reason explains the investment of Belgian capital in Russia before the crisis of 1900. A further point which must be kept in mind is that savings are not always accumulated with a view to being invested for interest, but sometimes merely as a reserve for future needs; this explains why disproportion between the accumulation of capital and the demand for capital is always possible.

Another objection which will be made to this theory is the classic one depending on Jean-Baptiste Say's law of markets that commodities are exchanged for commodities. This celebrated formula contains only a very limited amount of truth. If we imagine exchanges as being carried out without money we are merely falsifying the real state of affairs, not simplifying it. Barter, which is so dear to the theorists, involves simultaneous purchase by the two persons concerned. The use of money, on the other hand, breaks up the exchange into successive operations. It is quite conceivable that a worker who has sold his services may be unable to find bread on the market. A manufacturer who buys raw materials always runs the risk of not being able to sell the finished products and, more especially, of not being able to sell them at a price which will cover his cost of production.

To identify total demand with total income is, moreover, an error very similar to the first one. The total demand may include not only the total income of the community but also newly-created credit, representing a net increase over what formerly existed. A growing volume of credit accentuates still more the exaggerated demand for producers' goods resulting during the boom from the relative excess of saving. During the depression, on the contrary, the total demand falls below the total income, a fraction of which is hoarded or used to repay advances from the bank which have not been replaced by other equivalents.

It is also argued that saving is a form of demand just as spending is—that saving means delegating one's consuming power to someone else. But this demand becomes effective only on one condition, which is that some other demand for finished products comes from actual consumers and justifies an increase in the producer's plant or equipment. Now, the delegation of consuming power just referred to is always incomplete and there is more or less delay before it takes effect. For instance, the purchaser of machinery transfers purchasing power to a manufacturer, who in turn passes it on to a metal works. A whole series of transfers of this kind may take place between different producers without the market for finished products having more than a very slight share in the benefit. This is exactly the converse of the classic argument based on the assumption of barter, as a simple example will suffice to show. If each successive producer saves his profits, the sum saved will not leave the "capitalist" circle to increase the demand for consumers' goods. In reality, a fraction of the profits and the larger

[9]It must not be forgotten that the risk is subjective, which means that it is often exaggerated or, on the contrary, under-estimated. The reference in the text is to under-estimation of the real danger.



amount distributed in the form of wages will undoubtedly help to increase consumption; but that clearly does not prevent the creation of plant and equipment from outstripping the demand for finished products. During the whole period required for the construction of the new equipment the producer may be lulled into a false sense of security; but as one new factory after another comes into operation the real situation is finally revealed. In brief, the assertion that the remedy for the crisis is to be found in the investment of savings is incomplete without a mention of the essential condition for such investment, namely, an expansion of the market for finished products, or at least the confident expectation of such expansion. There must, therefore, be some indications of trade revival.

One other point must be stressed. Wages rise during the boom, and therefore under-consumption should cease. In point of fact, as was shown long ago by Rodbertus,[10] the disproportion between the incomes of capital and of labour is even more marked during the boom than during the depression. In periods of prosperity profits rise much more than wages, and it is chiefly out of profits that savings are accumulated. Moreover, the rise in wages during periods of prosperity is merely a passing effect of the process of over-investment; it does not in any way mean that the workers will continue permanently to receive a larger share in the total product of industry.[11]

The opponents of the theory of under-consumption may also advance the argument of the boom itself or of its cyclical recurrence. The writer has explained elsewhere that the existence of the business cycle is far from being as certain and as clearly demonstrated as many economists seem to suggest. What may be accepted by everyone, since it is self-evident, is the frequent occurrence of general or partial booms. These are inherent in the nature of a capitalist and competitive economic system. Hence the question—or if preferred the objection—takes a more definite form: can the existence of frequent booms, whether periodic or otherwise, be reconciled with the idea that capital investment is generally in excess of the needs of consumption, even when the latter is expanding? In other words, is there a fundamental lack of balance between producing power and purchasing power?

It is quite certain that if this conception is interpreted too literally and too absolutely it will not be found to agree with all the observed facts. We may go further and admit without hesitation that there has been very great economic expansion during the era of capitalism and no irreparable decadence, at least up to the present, in countries which are under that system. Even the most violent economic disturbances have always proved purely temporary. And it must be recognised that the gravity of the present situation is not due solely to economic causes.

At the same time it is equally true that the tendency to maladjustment between producing power and purchasing power remains constant. But it is neutralised and obscured whenever trade revives by the intervention of a factor peculiar to the present epoch, namely, technical progress. This factor has a dual influence. In the first place, it directly affects production from within by introducing new processes. It then acts indirectly from without by bringing about an extension and fusion of markets as a result of the lowering of transport costs. In the latter direction it may be expected that the effects of technical progress will sooner or later reach a limit. The world is gradually becoming unified; this process may no doubt be hastened on by the development of air transport or by other improvements that are still unthought-of, though it is obvious that it is seriously hindered by economic nationalism. The direct effects of technical progress on industry and agriculture, however, seem at present to have no visible limits, and in this direction capitalism still has vast possibilities open to it. And the relative excess of saving, with the pressure it exerts on the leaders of finance and industry during, and especially towards the end of, the depression, may possibly hasten on the application of inventions. Competition is another factor which certainly has the same effect. The capitalist system may therefore point, in justification for its existence, to the fact that it has stimulated economic progress.

Yet it remains defenceless against the exaggerated optimism which leads to catastrophe. For this reason the problem of economic planning which is at present occupying the attention of the world can be summed up in a few words: how is it possible to moderate the violence of these fluctuations and to distinguish in

[10]Rodbertus: *Soziale Briefe an v. Kirchmann* (1850). Cf. also Lescure: *Des crises générales et périodiques de surproduction*, 4th edition, Vol. II, 1932, pp. 416-417. On the harmful influence of rationalisation, cf. Hobson: *Rationalisation and Unemployment* (London, 1930), note on p. 90.

[11]As an offset to this, it is of course true that the fall in prices resulting from technical progress does lead to a lasting improvement in the purchasing power of the wage earners and tends to reduce under-consumption; so also does the rise in the general level of money wages over a long period.