practice between progress and illusion? The solution of this problem is already taking shape on the political horizon: it lies in the control of banks, holding companies, and other financial bodies, including in the latter term investment trusts in general. The point cannot be more than mentioned here, because in this study of the theory of under-consumption it must be recognised that the control in question, even if it were completely effective, would not, or would only indirectly, lead to an exact and lasting balance between producing power and purchasing power for finished products. The proportion of the total income devoted to investment would probably remain too high.

Another plan which is much in the foreground at present, at least with many British and American economists, is the inflation of the fiduciary currency. This inflation would be controlled and kept within limits, without the usual suddenness or the ordinary train of tragic and sensational consequences. Even its name would be changed so as to make it less impressive. It would be called, not altogether inaptly, reflation. By this means prices would rise slowly and not unduly, and would finally be stabilised at a reasonable level. That at least is the hopeful conviction of the advocates of the process. In this way the spirit of enterprise would revive, as production costs should rise neither so fast nor so far as selling prices.

Unfortunately it is doubtful whether the plan is workable. The experiments at present being made in the United States have so far proved fruitless (4 June 1932). It is only natural that the American Congress should think of intensifying the plan, but surely there is a risk that in their impatience and anxiety they may give too great an impetus to the movement. That is the real danger—that inevitably the scheme will be carried to excess. If that happens, we may fear the worst, including inconvertible notes, the collapse of exchanges, the flight of capital, and ultimately the paralysis of credit, depreciation of working capital, and the reign of speculation in its least desirable forms. We are still too close to the collapse of various currencies after the war not to realize the dangers of an inflationist policy, even when controlled. Perhaps it might be less dangerous if it were international, but in that case how would it be controlled?

From the point of view of the balance between producing power and purchasing power, inflation would have the advantage of destroying surplus capital. But it might destroy too much and create a fresh disproportion, that between fixed capital and circulating capital, which is itself a dangerous stimulant of crises.[12] Such a destruction of capital would not be anything really abnormal. The whole development of the capitalist system is a history of the destruction of capital. Competition eliminates large sums. Undertakings whose plant is not absolutely up to date, as, for example, in new countries flooded with European or American goods, have to disappear or be transformed. If they are to continue in existence without a forced change of ownership, they must hurriedly and prematurely write off large sums for depreciation; they must scrap equipment which is still fit for the purposes of production, however heavy the sacrifice. And their accounts will show this loss of fixed capital in the form of very heavy deductions from gross profits. During a boom it is loan capital which depreciates without appearing to do so, because the rise in prices reduces the purchasing power of the annual interest on it and of any repayments. It is true that this depreciation is temporary, but it is none the less appreciable and it is due to the rash optimism of business men, sustained by the inflation of credit. There is no need to remind the reader that a crisis leads to one failure after another. These catastrophic failures are not always due to any real lack of ability among the heads of businesses, but sometimes merely to imprudence. The reconstruction of shaky businesses also involves irreparable loss of capital. The depression continues the destructive work of the crisis, and it is further accompanied by a deflation of credit, which results in a fall in the market value of securities with variable interest.

The inflation and deflation of currency, in the proper sense, lead on a larger scale to effects similar to those resulting from tight or easy credit. There is however this difference, that capital which is affected by these diseases does not as a general rule recover. It should be added that over-saving, especially during the period of business stagnation and lack of confidence, renders a certain amount of capital temporarily unproductive, because liquid capital is being hoarded and production is restricted, so that a considerable amount of plant and equipment may be lying idle. This list of the ways in which surplus capital is destroyed or left in enforced idleness may be completed by reference to the losses incurred through capital being recklessly invested in unsound undertakings or lent to unreliable foreign borrowers, more especially in the case of public credit. The crisis of 1825, the Russian "affairs" at the turn of the century, and many affairs in the Far East provide notorious examples of this kind.

The history of capital losses makes sad reading. Even admitting frankly that mistakes were made by those who owned or administered capital—mistakes which were not due to the system—we cannot get away from the fact that the principal cause of these losses is the excess of saving in proportion to consumption. If the vessel is too full, some of its contents must overflow and be lost, or at least remain unused for a time. It is no doubt true that capital consists merely of things and that it is infinitely more serious and more deplorable to see wage earners, who are human beings, assailed by unemployment, poverty, sickness, and death. But the ills to which capital is heir inevitably react on the men who use it. What we are studying is therefore a social question and one of extreme importance at the present time.

Theoretically, the end to be achieved is clear and has already been suggested. We must find the best possible ratio for the allocation of the total income of the community to the creation of fresh plant and equipment and the consumption of finished products. But we have also seen that the rate of interest and fluctuations in profits do not constitute an adequate means of regulating this ratio. They often reflect the influence of collective errors in forecasting the future, and the volume of saving does not by any means follow closely the variations in the rate of interest on investments.

The practical difficulties are increased by the fact that the probable increase in consumption in the near future is very hard to estimate, and a considerable margin must always be left for unforeseen possibilities. Allowance must also be made for technical innovations which will require fresh capital and for the financing of countries which are not yet, or have only recently come to be, on a capitalist basis, and for which judicious assistance given in moderation will always be necessary and of inestimable value.

While admitting these difficulties, we must not exaggerate the height of the obstacles. It must be realised that a very great step forward can be made by increasing considerably the share of the working masses in the distribution of the total product of economic activity. This is the most reliable means of ensuring greater stability in the economic system, reducing the intensity of crises, and cutting short depressions.

[12]In reality the conflict between inflationists and deflationists is one of interests. It is merely a question of who is to be sacrificed, the shareholder or the lender, the invested capital or credit. Neither of the parties concerned pays any attention to the possibly disastrous effects of its victory on the non-capitalist classes, especially in the direction of unemployment or a fall in real wages.

The Depression and the Way Out

A Review of Three Important Books[1]

By N. I. STONE
Consulting Economist, New York

THE DEPRESSION continues to be the dominant topic of current economic literature. The numerous contributions offered in magazines and books to the solution of the problem may be divided into two broad groups: (1) those based on the belief that the recurrent booms and depressions can be overcome by a system of nationally planned economy; and (2) those which are not. With some qualifications, Mr. James may be said to belong to the first group; Mr. Keynes and Mr. Crowther with most of his collaborators belong to the second.

Keynes' "Essays in Persuasion"

John Maynard Keynes, the celebrated English economist, hardly needs an introduction to an American audience. The products of his trenchant pen are widely read not only by American economists, but by a much wider circle of intelligent readers who aim to keep abreast of world events. Mr. Keynes, who participated in the Versailles negotiations as the economic expert on the British Delegation and resigned from it when he felt that the Allies were imposing upon their vanquished foes terms impossible of fulfilment, has had the satisfaction of being able to say "I told you so" a dozen years after the publication of his "Economic Consequences of the Peace."

If ability to forecast coming events may be regarded as a fair test of the soundness of the view of a writer on politico-economic subjects, then Mr. Keynes' mastery of economics is established beyond a doubt by his "Essays in Persuasion." The Essays are a collection of magazine articles and lectures delivered over a period of more than a dozen years following the War and now published in book form. Written on the most debatable questions of the day in the heat of

[1]*Essays in Persuasion.* By John Maynard Keynes, Harcourt, Brace and Company, New York, 1932, pages xiii, 376.
A Basis for Stability. By Samuel Crowther in collaboration with 21 leaders of American industry, Little, Brown and Company, Boston, 1932, pages ix, 360.
The Road to Revival. By F. Cyril James, Harper & Brothers, New York, 1932, pages xv, 235.