THE CAUSE OF HARD

PREFACE.

TO the views set forth in this little book the author asks that a fair and unprejudiced consideration may be given. As those views are new and have not yet penetrated into the professorial mind, they must stand or fall, not by the weight of authority or precedent, but by the strength or weakness of the arguments adduced in their support. Of the critics, if they shall deign to notice him, the author asks that they will endeavor to make sure that they understand his views before they attack them, and will not set up as his, and then proceed to demolish, views and arguments for which he is in no way responsible.

URIEL H. CROCKER.

BOSTON, March, 1895.

TABLE OF CONTENTS.

THE
CAUSE OF HARD TIMES.

CHAPTER I.

PRINCIPAL CHARACTERISTICS OF HARD TIMES.

THE people of the United States, and to a perhaps less extent those of Europe also, have recently been suffering from a period of extreme depression in trade, or, in other words, from what are called "hard times." About twenty years ago there was a similar period of depression, and during the whole interval since that time there has been much trouble of the same kind. The evidences of the present depression are well known. Laboring men have found it impossible to obtain their usual employment. Manufacturing establishments have been unable to find any profitable use for all their machinery, and many of them have been compelled either to continue to turn out products at a loss, to cut down wages, or to close up altogether. The railroads of the country have been without their usual amount of passengers and of freight, and have been driven to curtail their expenses by a large dismissal of employees, — the weaker railroads having been forced into the hands of receivers, while the stronger, by reason of the falling off of their profits, have been compelled to reduce or to omit altogether the dividends to their stockholders. Shopkeepers have complained that their trade has fallen off, and that consequently they have been unable to pay to their landlords the usual rents. And, finally, capitalists have found so small a demand for their funds that money has been a drug in the market, and only loanable at rates of interest unprecedentedly low.

Under these circumstances it would seem to be a fact beyond dispute that the immediate cause of the depression is to be found in a falling off in the demand for the products of labor, — meaning by "demand," not that demand which seeks to obtain a product as a gift or for an inadequate price, but the demand which is ready and willing to pay to the producer a remunerative price for his product. It is surely the falling off in this demand that has deprived the shop-keeper of his trade, the manufacturer of a market for his products, the railroad of its freight and its passengers, the laborer of his employment, and the capitalist of the usual return of interest upon his money. It is also clear that an increase in this demand would set all the wheels of industry in motion, would restore his trade to the shop-keeper, would make busy again the machinery of the manufacturer, would load the railroads again with freight and with passengers, would give employment once more to all the great army of laboring men, and would cause capital to be again in demand and the current rate of interest to rise. These things are at last so plain that one can hardly find even a professor of political economy rash enough to deny them.

This strange condition of affairs, — this distress in the midst of plenty, — this superabundance of laborers and of the machinery of production, ready for employment, but unable to find it, — this apparently complete equipment of the world with factories and railroads and warehouses and willing hands, all eager to join in the work of creating and distributing products for the comfort and pleasure of mankind, but all held in check and forced to remain idle by some strange power that paralyzes them, — these phenomena would seem to furnish a subject of peculiar interest and of especial importance for the student of political economy. But, strangely, the professors of that science seldom touch upon this subject in their books or in the journals devoted to their special branch of learning. Indeed, it would almost seem as if it were a subject avoided by them from a feeling of their entire inability to grapple with it.

At the time of the great depression in trade that occurred about twenty years ago, the professors did indeed have some theories to air and some advice to give. Then, one of the leaders among them, Professor Bonamy Price, the Professor of Political Economy in the University of Oxford, England, announced in the Contemporary Review for April, 1877, (p. 787,) that the cause of the then existing trouble was "one and one only, — over-spending, over-consuming, destroying more wealth than is reproduced, and its necessary consequence, poverty." This theory was, however, plainly at variance with undisputed facts. A people suffering from "over-spending, over-consuming, destroying more wealth than is reproduced," cannot possibly find itself, as we found ourselves then, and again find ourselves to-day, possessed of multitudes of usable but unused products of labor, of an excess of idle machinery, and of multitudes of men and women unable to find employment. Poverty, which Professor Price correctly called the "necessary consequence" of over-spending, is always evidenced by a scarcity, rather than an abundance, of the products of labor, and by a large demand for labor to make good the previous waste. Apparently, indeed, the professors of political "economy" have felt bound to consider "economy" to be the remedy for all evils, and the want of "economy" the cause of every kind of mischief, and in their attempt to carry out these ideas they have been reduced, like Professor Price, to the necessity of explaining a condition of abundance by making it the result of waste, — of explaining a condition where men cannot find any work to do in the creation of products, by making that condition the result of a wasteful destruction and consequent scarcity of products.

If, then, we get no light from the professors, let us examine the subject for ourselves, and see whether we can discover the true cause of the phenomena which constitute the so-called "hard times," or "depression in trade."

CHAPTER II.

THE MOST PROMINENT CHARACTERISTIC AN EXCESSIVE CAPACITY OF PRODUCTION, AND A RESULTING AMOUNT OF PRODUCTS IN EXCESS OF THE DEMAND FOR THEM.

AS has been already stated, the one conclusion which we may draw, of the truth of which it would seem that there can be no dispute, is this, — that at the present time the capacity of production of this country, the capacity of its machinery and of its laboring classes to produce and distribute useful products, is far in excess of the remunerative demand for those products. There is surely nothing to keep idle machinery and willing hands from creating and distributing products, if those products can be disposed of at a profit to the producers. The fact is that the producers are all ready and waiting, but the buyers are wanting. Plainly the country's capacity of production has for the time run ahead of its demand for consumption, and this excess of capacity of production has only been made evident to the producers by an actual excess of production over the demand for consumption, — by their discovery that they have stocks of goods on hand which are in excess of the amount which is called for at remunerative prices. This condition of affairs, this inequality between production and consumption, between supply and demand, may properly be called either "over-production" or "under-consumption." Each term equally well describes the situation, and each has been employed by different writers, but that which has been most usually employed by economists has been "over-production."

CHAPTER III.

A GENERAL EXCESS OF PRODUCTION OVER DEMAND HAS BEEN ALLEGED BY ECONOMISTS TO BE IMPOSSIBLE.

AT this point, however, we encounter a difficulty. It is claimed by economists that, while over-production of a particular product is possible, and in fact often happens, a general over-production, or general excess of production over demand, is in the nature of things an utter impossibility. Thus John Stuart Mill, in his "Principles of Political Economy" (book 3, chapter 14, sections 1 and 3), says: "Because this phenomenon of over-supply and consequent inconvenience or loss to the producer or dealer may exist in the case of any one commodity whatever, many persons, including some distinguished political economists, have thought that it may exist with regard to all commodities, — that there may be a general over-production of wealth, a supply of commodities in the aggregate surpassing the demand, and a consequent depressed condition of all classes of producers. . . . There may easily be a greater quantity of any particular commodity than is desired by those who have the ability to purchase, and it is abstractly conceivable that this might be the case with all commodities. The error is in not perceiving that, though all who have an equivalent to give might be fully provided with every consumable article which they desire, the fact that they go on adding to the production proves that this is not actually the case."

The great weight of the name of John Stuart Mill, and his reputation as a sound reasoner, have caused this conclusion of his to be accepted by economists as sacred truth. With the ordinary economist, to assert the possibility of general over-production is to commit the unpardonable sin. Thus, in an article by Moreton Frewen on "Gold Scarcity and the Depression in Trade," in the Nineteenth Century for October, 1885, we read:

"People of little education are accounting for low prices on the hypothesis of general over-production; but it is hardly necessary to point out that, while over-production in any particular trade is frequent, and quickly adjusts itself, general over-production is impossible." And Mr. Edward Atkinson, in an address on the "Statistics of Consumption," printed in the Boston Sunday Herald for July 5, 1885, says: "I desire to examine the outside of the head of any one who pleads a general over-production, in order to see how his brain is constituted, and what element of common sense has been omitted in his make-up."

CHAPTER IV.

THE ARGUMENTS BY WHICH THE ECONOMISTS HAVE SUPPORTED THEIR POSITION STATED, AND THEIR VALIDITY DOUBTED.

EVEN at the risk of incurring the contempt of Messrs. Frewen and Atkinson, and of the whole tribe of professors of Political Economy, I will venture to examine into the soundness of Mill's position. In the first place, I may mention that those who look only at the facts, not troubling themselves about theory, are unanimously of the opinion that a state of general over-production has existed during the past few years. The practical man asks what class of producers (not in the enjoyment of a monopoly) there is which has not felt and believed that its own class of products has been over-produced. If such a complaint came from a few only, the followers of Mill would admit that it might be well founded, as he allowed over-production in special branches to be possible; but general over-production he claimed to be impossible. If people generally complain that they have been suffering from that, they must, according to his doctrine, be under a delusion. As an illustration how closely the modern economists hold to the views of Mill, the following words from Macvane's "Political Economy" (published in 1890) are here quoted: "Any one commodity, or any limited number of commodities, may be produced in excess of the demand at any time; but it is quite impossible that all products should be in excess of the demand at one and the same time. *If the supply of some things is excessive, the supply of other things is deficient to the same extent.*" (Chap. 27, sect. 1.)

Is it possible that Mill and the theorists are right, and the practical men all deluded? Is it possible that during all these hard times there have been, hidden somewhere, classes of products which, as is claimed by Professor Macvane, have been under-produced, — the supply of which has not been equal to the demand for them, — and the under-production of which has been sufficient to offset the over-production of other things, and to reduce the average of production to an equality with the average of demand? If there have been any such under-produced products, — products for which the demand has exceeded the supply, — there must certainly have been a great profit derivable from the business of furnishing those products to customers eager and able to pay for them. Can it be that in this enterprising nation no one has been able to discover what these under-produced products were, and to employ in their production some of the vast amount of idle capital which has so long been seeking in vain for some profitable employment? It would seem to be impossible for even Professor Macvane to answer these questions in the affirmative.

If then observed facts appear to be so much at variance with theoretical conclusions, we can with more confidence examine into the arguments of the theorists. Mill's statement is that the "error" of those who have supposed general over-production to be possible consists "in not perceiving that, though all who have an equivalent to give might be fully provided with every consumable article which they desire, the fact that they go on adding to the production proves that this is not actually the case." In other words, Mill's argument is that no man creates a product except for the purpose of supplying himself with some other product which he desires, and that his production of his own product is always strictly proportioned to his desire to obtain other men's products in exchange for his own. Thus he limits the amount of the production of each individual to an amount which cannot exceed that of his own demand for the products of others, and consequently the production of the whole community, which is the aggregate of the production of all the individuals composing that community, must according to Mill be limited to and cannot exceed the aggregate of the demand of all those individuals, and thus a general over-production, or general excess of production over demand, is made impossible. But if it can be shown that men sometimes carry on production, not primarily and solely for the purpose of supplying themselves with the products of others, but for an entirely different and independent reason, Mill's argument necessarily falls to the ground.

CHAPTER V.

THE POSITION OF THE ECONOMISTS SHOWN TO BE A FALSE ONE. — THERE MAY BE A GENERAL EXCESS OF PRODUCTION RESULTING FROM AN EXCESSIVE AMOUNT OF THE MACHINERY OF PRODUCTION.

THAT a powerful incentive to production, other than the desire of the producer to obtain the products of others, exists at the present day, cannot well be denied. This incentive is to be found in the willingness of the owners of the present immense amount of machinery of production to keep that machinery busy in the work of creating products, even when they can only dispose of those products for less than cost, rather than to suffer the greater loss that must come to them if that machinery is allowed to lie idle. They often continue for long periods to carry on production, not because they hope thereby to gain a supply of products exceeding what they already have, but with a sure knowledge that the daily result of their production is a decrease of their supply of products, a diminution of their wealth, a net loss. And the way in which this is brought about is as follows.

In recent years the machinery of production has been created so extensively that in very many branches of industry its capacity of production has been largely in excess of the demand for its products. And when this excessive machinery is, as is usually the case, the property of different competing producers, the now familiar result is brought about that these competitors find at last that there is no remunerative demand for all their products. Some producer's machinery must stop its work, or all the producers will find that it is impossible to dispose of their products except at less than the ordinary profit, or perhaps not otherwise than at a loss. But stoppage itself involves a loss, and ordinarily a greater loss than continued production. The owner of idle machinery has upon his hands a costly article of property, which involves him in continual expense for its care and for its protection from the weather, from fire, and from thieves, and which, in spite of all that he can do to preserve it, will rapidly deteriorate through rust and decay. He will also, by allowing his machinery to lie idle, suffer a further, and in most cases a more serious, loss from parting with and scattering beyond recall the skilled workmen who have been running that machinery, and from driving the customers, who have been in the habit of buying his products, to seek elsewhere for their usual supply; and it is well known that a course of trade once diverted is not easily restored to its old channel. Under these circumstances, it is evident that a large and powerful body of producers — namely, the owners of the immense amount of the machinery of production — may well be brought, and in many recent cases have actually been brought, to the creation of products to an amount not based upon and proportioned to the demand for those products, but based mainly on the producers' own desire to save and protect their machinery and their business. In order to save and protect these important elements of wealth, they have been ready and willing to maintain and continue a production which has not only involved no profit, but which has often brought them actual loss. Thus we find it to be true that there may be a production which is, with the knowledge of the producer and intentionally, in excess of the producer's demand for the products of others; or, in other words, we find that the fact that men "go on adding to the production" does not prove that they are necessarily and solely actuated by a desire to increase their store of "consumable articles," but that they may be actuated only by a desire to lessen an unavoidable decrease of their store of such articles, and Mill's argument to prove the impossibility of general over-production is shown to be founded in error, and it is made plain that there may exist, and have in fact existed, periods of so-called general over-production; — or, in other words, periods when there has been a general excess of products over and beyond the demand for them at prices remunerative to the producers.

CHAPTER VI.

STATEMENTS BY OTHER WRITERS CONFIRMATORY OF THE VIEWS SET FORTH IN THE PRECEDING CHAPTER.

THE actual working of the process by which, first, an excessive amount of machinery is created, and afterwards that machinery is run at a loss by its owner in his desire to save himself from the greater loss that would result from its stoppage, has been well described by Mr. Andrew Carnegie, a practical manufacturer, widely known and of recognized ability, in an article on "Trusts," in the North American Review for February, 1889. Mr. Carnegie there says (pp. 141, 142): —

"A demand exists for a certain article, beyond the capacity of existing works to supply it. Prices are high, and profits tempting. Every manufacturer of that article immediately proceeds to enlarge his works and increase their producing power. In addition to this, the unusual profits attract the attention of his principal managers, or of those who are interested to a greater or less degree in the factory. These communicate the knowledge of the prosperity of the works to others. New partnerships are formed, and new works erected, and before long the demand for the article is fully satisfied, and prices do not advance. In a short time the supply becomes greater than the demand; there are a few tons or yards more in the market for sale than are required, and the prices begin to fall. They continue falling until the article is sold at cost to the less favorably situated or less ably managed factory, and even until the best managed and best equipped factory is not able to produce the article at the price at which it can be sold. Political economy says that here the trouble will end. Goods will not be produced at less than cost. This was true when Adam Smith wrote; but it is not quite true to-day. When an article was produced by a small manufacturer, employing, probably at his own house, two or three journeymen and an apprentice or two, it was an easy matter for him to limit or even to stop production. As manufacturing is carried on to-day, in enormous establishments, with five or ten millions of capital invested, and with thousands of workers, it costs the manufacturer much less to run at a loss per ton or yard than to check his production. Stoppage would be serious indeed. The condition of cheap manufacture is running full. Twenty sources of expense are fixed charges, many of which stoppage would only increase. Therefore, the article is produced for months, and in some cases that I have known for years, not only without profit or without interest upon capital, but to the impairment of the capital invested. Manufacturers have balanced their books year after year, only to find their capital reduced at each successive balance. While continuing to produce may be costly, the manufacturer knows too well that a stoppage would be ruin."

Mr. David A. Wells has made a similar

statement in his "Recent Economic Changes," published in 1889, (p. 73,) as follows: —

"It was formerly a general assumption that, when price no longer equalled the cost of production and a fair profit on capital, production would be restricted or suspended; that the less favored producers would be crowded out, and, by the relief thus afforded to the market, normal prices would be again restored. But this doctrine is no longer applicable to the modern methods of production. Those engaged in great industrial enterprises, whether they form joint-stock companies, or are simply wealthy individuals, are invested with such economic powers that none of them can be easily pushed to the wall', inasmuch as they can continue to work under conditions that would not permit a small producer to exist. Examples are familiar of joint stock companies that have made no profit and paid no dividends for years, and yet continue active operations. The stockholders are content if the plant is kept up, and the working capital preserved intact; and, even when this is not done, they prefer to submit to assessments, or to issue preferred shares and take them up themselves, rather than go into liquidation, with the chance of losing their whole capital. Another feature of such a condition of things is that the war of competition, in which such industrial enterprises are usually engaged, is usually carried on by a greater and greater extension of the market supply of their products. . . . Under such circumstances, industrial over-production, manifesting itself in excessive competition to effect sales and in a reduction of prices below the cost of production, may become chronic." [1]

[1] The following quotations from the author's pamphlet entitled "Over-production and Commercial Distress" (pp. 16–18), published in 1887, are here given, in order to show that Messrs. Carnegie and Wells had been anticipated by this author in their statement of the causes of recent over-production. Indeed, the similarity in the form of the three statements would seem to show that this author furnished to the two later writers the unacknowledged basis for their above quoted statements.

"Modern society has brought in, to complicate the problem which Mill attempted to solve, at least one new and important element, namely, the immense amount of machinery, which now increases a hundred fold the effectiveness of human labor. And the use of machinery has had one curious effect which Mill entirely overlooked ; namely, that its owner finds an inducement to employ it in the production of consumable articles, even when he has no hope or expectation that he can by such production supply himself, directly or indirectly, with any consumable article for his own use. The factory owner, for instance, has upon his hands a piece of property which, if idle, will involve him in continued expense for its care and its protection from the weather, from fire, and from thieves, and which, in spite of all that he can do to prevent it, will rapidly deteriorate through rust and decay. The owner of an idle factory must also suffer a further injury from losing the skilled workmen who have been accustomed to run his machinery, and from forcing the customers, who have been in the habit of buying his products, to patronize rival manufacturers ; for to fill the places of those workmen and to find new customers, when his factory starts up again, must certainly involve him in great trouble and expense. . . . In order to avoid the loss which must necessarily come to him if his machinery is allowed to remain idle, he will employ that machinery in production, even when he knows that the articles produced must be sold for less than the cost of producing them."

"It is evident that during recent years much machinery has in fact been run without profit, or at a loss, to its owners, — run simply because those owners believed that they would suffer a smaller loss if they should continue to run it than if they should allow it to lie idle. It has in recent years been a matter of common observation that most kinds of machinery have been created of a capacity in excess of the demands of the market for the products which the machinery has been adapted to produce. There has hardly been a branch of manufacture, open to free competition, in which the machinery has not within the last ten years been run for long periods at a loss, simply because its owners have hoped to kill off rival manufacturers, to hold the market in anticipation of better times, or to avoid the deterioration and expense necessarily attendant upon idleness; and there is hardly any branch of manufacture to-day — unless it is, through a patent right or otherwise, in the enjoyment of a monopoly — which is not endeavoring to limit production by all sorts of mutual agreements, known as pools, trusts, etc., and thereby to prevent the continuance or recurrence of the troubles which it has experienced and of the losses which have resulted from the excessive amount of its machinery and from its general capacity of production in excess of the demands of the market."

3

CHAPTER VII.

AN EXCESSIVE AMOUNT OF THE MACHINERY OF PRODUCTION ACCOUNTED FOR AS A RESULT OF AN EXCESSIVE DEMAND FOR INCOME-PRODUCING INVESTMENTS.

WE have seen that the chief feature of our recent business depressions has been a general excess of production over the demand for products at remunerative prices, a condition which, under the name of "general over-production," the professional economists have mistakenly thought they had proved to be impossible, and we have seen further how an excessive creation of the machinery of production has, through the competition of the owners of that machinery, made this general over-production not only a possible, but an actually existing phenomenon. We have next to consider how we may account for the existence of this excessive amount of machinery.

There is at the present time a great demand in the civilized world for income-producing investments, meaning thereby those kinds of property which secure to their owners annual returns of income. The wealthy classes depend for their support upon the income which they derive from such investments, and the same is true in the main of our charitable and educational institutions, and, in a less degree, of the poorer classes, who often supplement the income derived from their daily wages with interest upon a deposit in a savings bank, or with dividends upon a few shares in the stock of a corporation.

We are apt to think that the field for these income-producing investments is unlimited in extent, but, if we consider carefully, we shall see that this is by no means true. We shall find that such investments are substantially limited to two classes: first, those based on real estate; and secondly, those based on what may be called the world's machinery of production and distribution, including in this latter class factories, warehouses, railroads, canals, steamships, sailing vessels, and the other like aids which mankind has learned to use in the great work of creating and distributing the various products of labor. Most, if not all, income-producing investments will be found to be included directly or indirectly in one of these two classes. Mortgages, bonds, and promissory notes derive their value from the real estate or other property owned by the mortgagor or promisor, and the book of a depositor in a savings bank only represents a share in the investments which the bank has made with the funds of its depositors.

The strict limitation of the amount of the first of these two classes of income-producing investments is evident. The income-producing real estate of the world at any given time is not only plainly limited in amount, but is also substantially secured in exclusive ownership. The limitation of the other class, — that of the machinery of production and distribution, — is not at first sight so clear. If, however, it be true, as we have stated above, that such machinery may be, and in fact in recent years has been, created with a capacity of production in excess of the remunerative demand for its products, we see at once that there is a limit to this kind of investment also,—that there is a limit to the amount of such machinery which can find any profitable employment, — the overstepping of which limit leads to a total loss of income by the holders of the investments, and may even cause a change in the character of the investments from income-producing to income-destroying. It appears then that the field for the investment of capital, so that it shall make annual returns of income to its owners, is distinctly limited in every direction, and that its limits have been in recent times distinctly approached, and even in some cases overstepped, and thus we see that the true cause of this overproduction of machinery and of products is to be found in an excessive desire to secure these income-producing investments, — a desire that has led to a creation of the machinery of production and distribution, not only up to the limit which the circumstances of the time have fixed for the amount of that machinery which may at that time be income-producing, but even beyond that limit into the region where machinery becomes, not income-producing, but income-destroying.

CHAPTER VIII.

THE EXCESSIVE DEMAND FOR INCOME-PRODUCING INVESTMENTS ARISES FROM AN EXCESSIVE DESIRE TO SAVE RATHER THAN TO SPEND.

WE have shown that there may be in the world an excessive desire to secure income-producing investments, — a desire so great as to defeat its own ends, and to convert from increasers to destroyers of income even the investments which have been already secured. But what is this desire for income-producing investments other than a necessary result of the much lauded virtue of *saving?* — not, indeed, the old-fashioned miser's saving of his coins in an old stocking, but that more intelligent saving, which abstains from spending one's gains or wages to secure immediate and transient comforts and pleasures, and, instead, devotes those gains or wages, or at least a portion of them, to what economists have called "productive consumption," — to the creation of new machines of production or distribution, in order that the saver may, by the profits which he hopes to derive from that machinery, secure a provision against the needs of old age or of ill health, or may guard his own future or that of his children against the necessity of daily labor.

Here we reach a conclusion very difficult of general acceptance. Saving has been quite universally accepted as a virtue to be practised at all times and under all circumstances. Solomon did indeed say, "There is that scattereth, and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to poverty" (Proverbs xi. 24); but this has been supposed to be a matter in which the wisdom of Solomon has been found to be wanting. It is hard to bring people to-day to believe with Solomon that the general practice of saving may be carried to such an extent as to be excessive, and to do injury rather than good to mankind. It is hard to overturn deep-seated prejudices; but prejudices must at last, though slowly, yield to reason. We have seen that saving for the purpose of securing income-producing investments (which the economists recognize as the best object of saving) may be carried to such an extent as to overfill the possible limits of the field of profitable investments, and thus to bring, instead of benefit to mankind, only the enforced idleness, the miseries, and the want of a period of business depression.

As the troubles of the recent hard times have been due mainly to a want of demand for products, — to a failure of demand to keep pace with production, — we can see, further, that if the great army of savers, instead of devoting so much of their surplus funds to the creation of superfluous machinery of production, had employed more of that surplus in the purchase of products to be consumed for their own immediate comfort or pleasure, not only would the superfluous new machinery with its resulting troubles never have been called into being, but these very people would have themselves created an added demand for products, — a demand that would have kept in full action all the old and also some new machinery, would have kept demand up to an equality with supply, would have prevented all the disastrous results of the competition between the owners of the superabundant machinery, and, in a word, would have prevented entirely the occurrence of any hard times.

It is perhaps well here to caution the reader against the idea that the author of these pages fails to recognize any virtue in saving. No one can admit more readily than he does that human progress has been mainly brought about by the aid of this virtue. Except for the saving of the past, the world would be without all the immense machinery of production and distribution which exists to-day, and which forms perhaps the most important element of our civilization. All that is here claimed is that economy and saving, like most other good things, can be carried too far, — so far, indeed, as to cause injury rather than benefit to mankind. One need not be supposed to deny the benefit or the necessity of food for the human body, because he claims that the gratification of an inordinate desire for food may result in injury to health, or even in the destruction of life itself. It is certainly evident that if all men should, in their desire to save and to acquire wealth, practise the strictest economy, live on the simplest food and in the meanest houses, wear the poorest clothes, and abstain from all travelling and pleasure-seeking, they would render all machinery of production and distribution substantially useless and unprofitable, and would find that, by their extreme efforts to save and grow rich, they had defeated their own purposes, and had rendered valueless the hard earned and much treasured investments of their past savings. In a world of misers the investment of savings would necessarily be limited to the old-fashioned hoarding of gold, for there would be no profit in the ownership of idle factories, railroads, steamships, and warehouses, and even real estate, if there were no trade in the shops and no demand for desirable house lots, would give little or no gain to its owners. So long, however, as mankind are not all misers, there will always be an opportunity for the *individual* to gain by saving, although, if the general saving of the whole community be excessive, the individual's gain may be the public's loss. In advancing his own interests, the individual may add to the general loss arising from the excessive creation of the machinery of production and distribution; as, on the other hand, in these days of business depression, a man might help the general situation by spending not only his income but his principal in giving employment to idle workmen. He would ruin his own fortune and injure himself, but he might be a public benefactor by setting some of the wheels of business in motion.

That the practice of economy and the acquisition of income-producing investments has in recent days been carried too far, is not to be wondered at. To save rather than to spend, and thereby to grow rich, has been popularly considered to be almost, if not quite, the chief end of man. The pulpit and the press have united in teaching the duty of economy. No man has been thoroughly respected by his neighbors unless he has been adding, according to his means, to his store of income-producing investments. The mechanic and the laborer have been doing this by deposits in the savings banks, the deposits in those institutions in the small State of Massachusetts alone having shown an increase even during the hard times of the year ending Oct. 31, 1894, of over sixteen millions of dollars.[1] The citizen that has accumulated investments to the amount of ten thousand dollars has been endeavoring, by a life of self-denial, to increase those investments to a hundred thousand. He that has had a hundred thousand has been looking forward to and laboring to bring about the time when he might enroll himself among the millionaires. He that has had a million has been hard at work to triple or quadruple his million before his death. And even a Vanderbilt, an Astor, a Gould, a Russell Sage, or a Hetty Green, has not been

[1] See Report of Massachusetts Board of Commissioners of Savings Banks for 1894.

content unless he or she could each year add more millions to his or her already immense accumulations.

In this way men have gone on increasing their investments in the machinery of production and distribution, unmindful of the fact that such machinery is valuable only so far as it creates and distributes products for which the market furnishes a remunerative demand, and that, if that demand fails to keep pace with the amount of products, the machinery of production must be, to just the extent by which demand lags behind, superfluous, useless, and without profit. Men have acted as if they supposed it to be possible to cut down to the lowest limits the consumption of products, and at the same time to afford the largest field for the profitable employment of machinery and of labor in creating and distributing those products. Under these circumstances it is not strange that machinery has been created with a capacity of production far in excess of the demands of the market for its products, and that products have actually been created in excess of these demands. The supply of products has been continually increasing, but there has been no corresponding increase in the demand for them. At last the owners of the machinery have been forced to close their factories and to dismiss their workmen, and by that very act they have made the already inadequate amount of demand still more inadequate, for their own ability and inclination to spend is greatly lessened by the loss of the profits which they had expected to derive from their machinery, while the demand of the dismissed and unemployed workmen is necessarily reduced to a bare call for the simplest necessaries of life.

CHAPTER IX.

HOW THE LOST EQUALITY BETWEEN PRODUCTION AND DEMAND MAY BEST BE RESTORED.

AS we have found it to be true that the aggregate of production may be in excess of the aggregate of demand at remunerative prices, and as we have found that, by reason of that excess, hard times have been brought about, and the laboring classes have been forced to be idle and starving in the midst of plenty, it plainly becomes the duty of the economist to study how this inequality between production and demand may best be removed, and how the lost equality between these two elements may best be restored. It is evident that, in order to restore this lost equality, one of two things must be done: a way must be found either to reduce production or to increase demand. There are various means by which these two results may be reached, and it is surely the duty of the economist to study carefully these various means, and to point out those which are most likely to be on the whole beneficial in their operation.

On the one hand, production may be diminished by wars, riots, floods, and conflagrations; by the refusal of mankind to avail itself of the assistance of labor-saving machinery; by the enforced idleness of large classes of people, as by preventing convicts in prisons from performing useful labor; by reducing the hours of labor through the adoption of eight-hour laws or otherwise; or by the closing of factories and the stoppage of machinery, this last being a result which has frequently been brought about in recent years through combinations of manufacturers in so-called "trusts," whereby the machinery of one or more of the producers of a commodity has been kept idle at the joint expense of all the producers of that commodity.

On the other hand, demand may be increased by the action of government in waging costly and destructive wars, in maintaining large armies and navies in time of peace, and in the erection of costly public buildings and public works. It may also be increased by a more liberal expenditure on luxuries by the richer classes, or by a more generous use of wealth in charities for the poor. A larger enjoyment of the comforts of life by the poorer classes would of course increase demand; but this mode of increase is not dependent on the simple volition of the poor themselves, for, before they can increase their demand, it is necessary that they should receive increased wages, or at least wages which, if not larger as measured in currency, are larger in purchasing power. And, finally, demand may be increased through the opening of new fields for the investment of capital, as would happen, for example, if a new mode of transportation were invented which would serve as a substitute for railroads.

Most of these methods of diminishing the aggregate of production, or of increasing the aggregate of demand, are evidently remedies that are worse than the disease for which a cure is sought. There are, however, at least two of these suggested remedies that may well be worthy of our careful attention. If we can relieve the troubles of the time by increasing the demand of the poor for comforts and luxuries, or by reducing the hours of labor of the laboring classes, or if we can effect a combination of these two remedies, whereby the poor shall both enjoy more and labor less, shall have more to enjoy and more time for enjoyment, a good result will surely be accomplished. At all events, we may conclude that this new conception of the true province of political economy opens for us new and unexplored fields of thought, worthy of careful and earnest consideration.

CHAPTER X.

WHY THE RECENT HARD TIMES BEGAN WHEN THEY DID, AND HOW SOON WE MAY EXPECT THEM TO END.

WE have seen that the recent hard times have been caused by the fact that production has run ahead of demand, and we have traced the causes which have tended to bring about this excess of production. It remains for us to discover some reason why this inequality between production and demand should have been felt in the United States so suddenly and so severely in the summer of 1893. There must have been at that time something to cause either a great and sudden increase of production or an equally great and sudden decrease of demand. There was evidently no reason for a sudden development at that time of the desire for income-producing investments, and a resulting sudden increase of the machinery of production. There was no such cause, and no such result. There was, however, a sudden decrease of the general demand for products, and the cause of this diminution of demand is not far to seek. In the summer of 1893 there was in the United States, as is well known, a sudden and violent panic in the business community, arising out of a fear that gold was going to a premium, which panic caused a general locking up of funds and an extreme scarcity of money, and made the current rates of interest unusually high. There were many failures, and all classes were frightened and began to economize. Shopkeepers, finding that their trade was falling off, feared to lay in their usual stocks of goods. Manufacturers found that the demand for their products was disappearing, and consequently began to reduce the number of their employees. The idle employees were no longer able to make their usual purchases, and the stockholders in the factories, who were expecting to be deprived of their usual dividends, reduced largely their purchases also. Thus everything conspired to reduce demand, thus the sudden inequality between production and demand was brought about, and thus the hard times were begun.

If this was the way in which the recent hard times began, in what way may we hope that they will be brought to an end? The hard times of twenty years ago were probably brought to an end in the United States by a great demand from Europe for our grain. The sale of their grain at good prices brought prosperity back to our Western farmers. They began again to purchase freely; demand began to grow throughout the country; the machinery of production began to be busy again; shopkeepers, finding that prices were beginning to rise, thought it was time for them to fill their shelves with ample stocks of goods for future sales; all men began to be hopeful of the future and to spend freely again; and thus the tide was turned and demand increased rapidly. It would seem that we have not at present much reason to hope that we may feel such a stimulus to the general demand for products as was furnished twenty years ago by the European demand for our grain. But there have recently been some signs of improvement in business, and it may well be that a sufficient stimulus to start us on the road to recovery may be found in an increased demand, which must necessarily spring up at last after a season devoted to the using up of old supplies and to the emptying of shops and warehouses. If there can be but the beginning of such an increase of demand, we may well hope that it will continue until our machinery and our laboring men and women are all busy again, until both production and demand are again full and ample, and until the hard times shall have fully disappeared. The one thing needed is only an increase of the demand for products. This may of course be most naturally brought about by an increased ability to purchase; but it may also be brought about by an increased inclination and readiness to purchase, arising out of a general disposition to take a more hopeful view of the future, out of a feeling that the time for saving and scrimping has passed, and that a more liberal scale of expenditure may finally be indulged in. If only this feeling of hopefulness regarding the future can come to us, it matters not on what the feeling is founded, or indeed whether it is well founded at all. If only it will come, it will work out the fulfilment of its own prophecies, — it will start the increase of demand, — it will raise demand to an equality with supply, and thus will bring us to the end of the present hard times.

CHAPTER XI.

HISTORICAL FACTS CONFIRMING THE AUTHOR'S THEORY.

THE recent history of Europe furnishes one well-established fact, which is wholly inexplicable except on the theory advanced in this book. After the Franco-German war of 1871 France was left with its territory devastated by the armies which had fought within its borders. Its farms, its buildings public and private, its factories, its highways, and its railroads had been ruined and destroyed, and it had been compelled to pay an enormous sum as an indemnity to its victor. Germany had however suffered little in comparison. The battles had not been fought on its soil, and its expenses in the war had been in large part repaid to it by the milions of indemnity which it had extorted from its fallen foe.

But history shows that under these circumstances — which, according to all accepted principles of political economy ought to have caused prosperity in Germany and want and distress in France — it was Germany that suffered from hard times, the general depression in trade after 1873 having been felt more severely in Germany than in either England or America, while France was entirely free from any such trouble.[1]

[1] Lest the reader should doubt the truth of the historical statement here made, the following quotation is given from the article, already referred to, by Professor Bonamy Price in the Contemporary Review for April, 1877 (pp. 779–783): —

"Commercial depression is the universal cry, a commercial depression probably unprecedented in duration in the annals of trade, except under the disturbing action of prolonged war. . . , Ample evidence abounds on all sides to show its extent and severity in England. . . . Have other countries bowed their heads in suffering under the commercial depression? Let America be the first to speak. In 1873 she experienced a shock of the most formidable kind. She has not recovered from the shock at this very hour. . . . Let us visit Germany, — Germany, the conqueror in a great war, and the exactor of an unheard of indemnity. What do we find in that country? Worse commercial weather at this hour than in any other. Nowhere are louder complaints uttered of the stagnation of trade. . . . And so we come round

The theory here presented easily accounts for these facts by showing that there could have been in France no hard times, with factories and laboring men in want of employment, at a time when all the machinery and all the men and all the railroads of the country were hard at work repairing the waste of the war. In Germany, on the other hand, a period of great prosperity immedi-

to France, the people whose well-being has been so visited with the most violent assaults. Her losses and sufferings have surpassed those endured by any other nation, yet the deep, heavy pressure of the commercial paralysis has weighed upon her the least oppressively of all. War has desolated her broad fields and overthrown her industries over great areas of her territory. Her taxation has been suddenly raised by the gigantic sum of thirty millions of English pounds a year. . . . Her share of the commercial trial has been the severest and largest of all ; yet at this hour she exhibits, not the melancholy languor of business men in other countries, but the active movements of quickened recovery."

It seems almost incredible that the above should have been written by the economist who traced the cause of the commercial depression of which he wrote simply to "over-spending, over-consuming, destroying more wealth than is reproduced, and its necessary consequence, poverty." He could argue that this was the cause of the trouble, and yet admit that the result was the smallest where the cause was the greatest, and the result the greatest where the cause was the smallest.

ately following the war, — a time when new buildings and new factories were erected in large numbers to make ready for a booming future that did not materialize, — was succeeded by a time when it was found that the nation had been going too fast, when the rich found that their investments were not going to be as productive of income as they had hoped and expected, and that they must therefore stop building and must retrench their expenses. Thus the laboring men began to lose their daily employment and daily wages, and were forced to economize also, and thus hard times with their accompanying distress were brought about, and Germany, the conqueror, that had come lightly out of the war, was suffering from an enforced idleness of its people, while the people of France were enjoying the benefits of an enforced activity which compelled everybody to be busy. In a similar manner we may account for the condition of the United States after the conclusion of the War of the Rebellion. During that war there was nowhere complaint of enforced idleness, nor was there such complaint for several years after the war was over. During those years there was much to be done in the way of repairing the damage and waste that the war had caused, and there was also all over the country an immense investment of capital in the building of new shops and warehouses, new dwellings to be sold or let, new railroads, and new factories. At last, however, it was found that this investment of capital had been overdone, that there were more new shops and warehouses than there was demand for, that there were more new dwelling-houses than could be sold or let, and that there were more railroads and factories than profitable employment could be found for. Then the laboring classes, whose services had been in great demand all through the war and through the succeeding years, began to find that their employers had no further need of their services. Then those who had made the unprofitable investments began to see that they must economize and consume less of the products of labor. Demand on all sides rapidly fell off. A general excess of products beyond the demand which was ready to pay a remunerative price for them began to be evident, and the hard times of 1873–74 were upon us.

CHAPTER XII.

SOME PRACTICAL CONCLUSIONS.

THE fact which we have endeavored to establish, of the existence of limits to the field for income-producing investments, suggests several conclusions which are important.

The first is that the immense investments of people like the Vanderbilts, the Astors, and the Goulds are mischievous so far as they tend to monopolize the whole of the world's field of investment, and to leave small chance for the generality of people to make, by the investment of their smaller savings, the needed provision against the wants of old age or of sickness. It will be unfortunate if the time shall ever come when a few families will have secured in their own exclusive possession the ownership of all, or of substantially all, the real estate and the machinery of production and distribution, and will have left, as the only possible investment of savings open to the multitude, the hoarding of gold and silver and jewels in safe-deposit vaults or in old stockings. Such a result would operate to destroy in the greater portion of mankind that virtue of providence, of thought for the future, which has done so much to advance civilization.

Secondly. The theories, of which much is heard at present, which would exclude all individual ownership from real estate and from railroads, telegraphs, gas-works, waterworks, and the like, would greatly restrict the limits of the field for the profitable investment of capital, and would thus render it much more difficult than it is to-day for individuals to find income-producing investments for their possible savings, and men would thus have small inducement to refrain from living from hand to mouth, and from taking no thought for the morrow, and would be led to neglect that provision for the future which is so important an element for human welfare.

Thirdly. The overcrowding of the field for income-producing investments is causing a reduction in the rate of income to be derived from invested property, and though, in the course of its development, this brings us to times of general distress, the process is in its final result a beneficent one, for, as I have written in a previous publication,[1] "A reduction in the rate of income from invested property means, in the final analysis, that the world pays less than it has before been paying for the use of its machinery; that labor is obtaining a larger, and capital a smaller share of the compensation paid for production; that of the price of every article purchased for consumption by the rich or by the poor a greater proportion goes to pay for the labor, whether of hand or of brain, that has been expended on its production or its transportation, and less for the use of the machinery which has helped to produce it or to transport it to the consumer. The evils, then, which result from an excessive investment of capital in machinery, are

[1] "Over-production and Commercial Distress," p. 29.

only temporary. The evils of general over-production, of glutted markets, and of enforced idleness and consequent want among the poor, are only the results of the irregular flowing of a stream whose general course tends surely towards the improvement of mankind, and the lessening of the inequalities between the rich and the poor. It has been my purpose to show how the irregularities in the flow of this stream, the temporary chokings of its current, have been caused, and how depression in trade has resulted from these irregularities in the working of a process, which, if it were regular and not too rapid, would operate only to the good of mankind."[1]

Fourthly. If, as has been argued, the closing of factories and the throwing of laborers out of employment find their original cause in an excessive desire, on the part of the general public, to acquire income-producing investments, and in a consequent overcrowd-

[1] The first few lines of this quotation were quoted by Hon. David A. Wells in his "Recent Economic Changes," p. 430, but without giving any credit to their author.

ing of the limited field for such investments, it would seem that the sufferers from the results thus brought about might fairly have some claim on that public, as represented by the government of the city, state, or nation, for relief from the suffering thus created. If the action of the community as a whole, through the general excess of its desire to accumulate investments, is such as to leave labor unemployed and starving in the midst of abundance, may not the idle and starving laborers fairly claim that the government, which represents the community at large, shall find and supply them with that employment, that means of earning a livelihood, which individuals have failed to furnish? A new light is thus thrown on the question of the policy of establishing public workshops, and of carrying on public improvements for the purpose of giving employment to the idle. The objections to such measures, on grounds not here noticed, may be insuperable; but the views before set forth suggest strong arguments why, under certain circumstances, it may be the duty of a government to relieve public distress by employing workmen on a large scale in carrying out public improvements which would not otherwise be undertaken.

Fifthly. An argument in favor of a protective tariff may be drawn from the theory here presented. If a country, on account of its undeveloped condition, or for any other reason, affords greater opportunities and a larger field than other countries for the profitable investment of capital, it is possible that it may, by limiting, through tariffs or otherwise, its communication with other countries where the field of investment is more crowded, postpone the time when the effects of the competition between investors will cause depression in trade, hard times, and general distress within its own borders. It is probably true, however, that, though a country may by a protective tariff, which shuts out foreigners from competing with native production, postpone somewhat the time when it is itself to suffer from some of the unpleasant, though necessary, incidents of its progress towards a diminution of the profits of the rich and idle, and an increase of the profits of the laboring poor, it yet thereby only delays the march of its own progress in civilization. America, with its less crowded field for investment, may by a tariff keep its own markets for its own producers, and may thereby prevent the capital of Europe from intruding upon and taking possession of a portion of that field. It may thus prevent foreign capital from competing with its own capital on equal terms, and may thereby keep its rate of income from investments up to a higher figure than the European rate. In ocean commerce English and American capital have competed in recent years on exactly equal terms; and the former, being the cheaper capital, — that is, the capital that is content with the lower rate of interest, — has necessarily driven out of the field the dearer capital of America, and the destruction of the foreign commerce of the United States is thus seen to be no result of protection or of free trade, or of any legislation or want of legislation, but to be simply the necessary effect of the law which gives to the cheaper capital the entire control of any field of investment to which it has full and unrestricted access. And if, by the removal of duties or otherwise, English capital shall be enabled to compete in our markets in the production of any given article of manufacture, with only the slight item of the cost of transportation from England to America operating against it, we may expect it to be as efficient as in the case of ship-owning in driving American capital out of that field of investment, or at least in forcing American capital to be content with a lower rate of profit than it had previously been accustomed to. On the other hand, if we look upon the maintenance of a high rate of profit for capital as simply the maintenance of high prices for the use of the machinery of production and distribution, and of low prices for labor, we see that protective tariffs, though they may sometimes postpone the coming of periods of general over-production and distress, are on the whole a hindrance to the onward march of civilization and to the general improvement of the condition of mankind.

CHAPTER XIII.

THE ORIGIN OF "TRUSTS."

ONE of the results plainly traceable to the overcrowding of the field of investment has been the formation of the numerous so-called "trusts," which have of late played an important part in the manufacturing interests of the country. Whenever it has been found that the machinery of production in any branch of manufacture has been created with a capacity of production in excess of the demands of the market, the different manufacturers, in their endeavors to avoid being left with unsold balances of products on their hands, have, as has been before stated, been forced to dispose of those products for less than it had cost to produce them. Production having grown largely in excess of demand, it has been necessary that it should in some way be reduced, and, as no single manufacturer has been willing to allow his machinery to lie idle for the benefit of his competitors, there has been no way left except for all those engaged in the business to band themselves together in a so-called "trust," and to place the management of the business of all in the hands of one man or of a few men, who are given full power to determine the amount of production that can profitably be carried on, and who can order the stoppage of any machinery that they may deem to be for the time superfluous, — the owner of the idle machinery receiving, however, his full proportion of the profits of the whole business. Thus in various special branches of manufacture over-production has been prevented, and production has been limited to the amount at which the product can be disposed of at a price remunerative to the producer. This "trust" scheme has proved in practice to be very efficient, and it has been successful in securing to those who have joined in forming these combinations, whether their machinery has been busy or idle, a handsome income on their investments. Where, however, producers have been unable or unwilling to unite in this way, and have endeavored to escape from the loss which they would suffer from disposing of their products at less than cost by reducing that cost through a cutting down of the wages of their employees, they have found that they have not thereby helped the situation, inasmuch as, the whole cause of the trouble being an amount of products in excess of the demand for them, a mere reduction of cost without any reduction of the amount produced has had but little effect towards equalizing production and demand, and thus those producers who have tried to remedy the evil by a simple reduction of wages have found substantially the same difficulty in disposing of their superfluous products, after they have thus reduced the cost thereof, that they had found before that reduction had taken place.

CHAPTER XIV.

THE DIFFERENCE BETWEEN THE AUTHOR'S VIEWS AND THOSE OF THE ECONOMISTS A RADICAL ONE.

THE views set forth in this book are, as has been before stated, in direct conflict with the doctrine of the impossibility of general over-production. That doctrine, however, lies, according to John Stuart Mill, at the basis of the whole of the accepted system of political economy, of which he may be considered to have been the founder. Mill says of it: "The point is fundamental. Any difference of opinion on it involves radically different conceptions of political economy, especially in its practical aspect. On the one view, we have only to consider how a sufficient production may be combined with the best possible distribution; but, on the other, there is a third thing to be considered, — how a market can be created for produce, or how production can be limited to the capabilities of the market."[1] Mill's idea seems to have been, that, as it was impossible that there should be a general excess of production over demand, it was only necessary for the economist to consider how to promote the production and distribution of products; but he seems strangely to have overlooked the consideration that, even if it was impossible that production should run ahead of demand, it was still possible that, the two being as it were tied together, production might be limited and held back by a lagging demand, and that therefore circumstances might still exist under which the only way to promote production would be by finding a means of increasing demand, and that therefore his own conception of political economy, — namely, that its only province is "to consider how a sufficient production may be combined with the best possible distribution," — was by his own con-

[1] Principles of Political Economy, Book III. Chap. XIV. sect. 4.

fession "radically different" from the true conception, and that, in addition to production and distribution, there was really a third thing to be considered, namely, "how a market can be created for produce." We see, therefore, that Mill's system of political economy, built upon the consideration of production and distribution alone, is a false system, even if, as Mill claimed, general over-production is impossible; but if, as has been shown, general over-production is not only possible, but a matter of actual and present experience, then his whole conception of political economy is doubly proved to be false, and we find double reasons for adopting what he calls a "radically different conception" of that science.

CHAPTER XV.

THE ECONOMISTS' EXPLANATION OF THE TENDENCY OF PROFITS TO A MINIMUM SHOWN TO BE ANTIQUATED AND INADEQUATE.

MILL had much to say of the "tendency of profits to a minimum." He recognized the existence of this tendency, and explained it as follows: "On a limited extent of land only a limited quantity of capital can find employment at a profit. As the quantity of capital approaches this limit, profit falls. When the limit is attained, profit is annihilated, and can only be restored through an extension of the field of employment, either by the acquisition of fertile land, or by opening new markets in foreign countries from which food and materials can be purchased with the products of domestic capital." [1]

[1] Principles of Political Economy, Book IV. Chap. IV. sect. 1.

This theory, which makes the rate of the profit derivable from capital to depend upon the area of fertile land, might have some plausibility if income-producing investments were limited to agricultural lands; but in these modern days, when by far the greater part of the income which capital receives is derived from the ownership of lands which produce no crops, and of the machinery of production and distribution, Mill's theory is seen to be utterly inadequate and antiquated. The theory advanced in these pages, however, fully explains the admitted tendency of profits to a minimum, by referring it to the tendency of mankind to accumulate income-producing investments of all kinds at a rate faster than the rate of growth of the possible field for such investments, thereby gradually crowding that field, so that the competition of the investors gradually forces down the rate of profit which can be obtained from their investments.

CHAPTER XVI.

SOME PROGNOSTICATIONS AS TO THE FUTURE.

ALTHOUGH in the future a general increase in the wages of labor, or other causes, may bring about an increased consumption of and demand for products, and consequently an increased use for the machinery of production and distribution, yet it seems probable that the desire to obtain income-producing investments will be so general and so powerful that the field for such investments will hereafter remain permanently crowded, except when it may be cleared for a time by the destruction due to a great war, or by an invention which shall call for a large investment in a new kind of machinery. A crowding of the field for investment must lead to severe competition among investors, and to a lessening of their profits. Manufacturing business, therefore, when it has no monopoly, but is open to the competition of all comers, may be expected to return in the future only small profits. Railroads, if free from competing lines, may however expect their business to increase in volume, and, if free from too much legislative interference, which seems now to be their chief danger, may be expected to pay handsome dividends. For real estate, advantageously situated, a large increase in rental value may be anticipated, which will make real estate a desirable form of investment, unless too great a portion of the rents derivable from it is taken by taxation to be wasted or squandered by incompetent or corrupt governments. Money in the future cannot be expected to command more than low rates of interest; indeed, it is probable that there will be a general and continued decline in the current rate. We may anticipate, however, that the development of the results which we have foreshadowed will not be regular and uniform. There will continue to be in the future, as there have been in the past, periods when demand will be abnormally increased by a general movement to accumulate stocks of goods in anticipation of an expected rise in their price, and periods also when demand will be abnormally diminished by the causes which have been shown to have brought about hard times; but it would seem that the general tendency must be such as has been indicated.

A more serious question arises as to the probable behavior of the laboring classes in the hard times which are sure to come at intervals in the future, and when they find themselves again and again unemployed and starving in the midst of plenty. The laboring classes are every year showing themselves to be more and more ready to resort to violence in attempts to right their supposed wrongs, and it is but natural to expect that they will grow more and more impatient at each repetition of the experience of suffering mysteriously from want in the midst of plenty, and that they may at any time strike blindly and with violence at anything that demagogues lead them to suppose to be the cause of their troubles. Socialism, with its promises of relief from such troubles, may well gain much support in the future, and may even succeed in putting its theories into practice. At any rate, the possible results that may arise from the influence of future hard times upon the general advance of civilization are so important, that a careful study of the causes of these periods of business depression is well worthy of the consideration of all thoughtful men.

CHAPTER XVII.

A MORE TECHNICAL ARGUMENT, ADDRESSED PARTICULARLY TO PROFESSIONAL ECONOMISTS.

IT was claimed by John Stuart Mill, and it is now claimed by economists generally, that "general over-production" is, in the nature of things, an impossibility. Unfortunately, Mill gave no clear definition of the meaning of the term "general over-production"; and we are left to extract his idea of that meaning from his general discussion of the subject. Let us examine, first, what Mill has said regarding the nature of *simple over-production*, — i. e. the over-production of a single commodity, — and afterwards we can pass to the consideration of the more complex idea of *general over-production.*

Fortunately, we find in Mill what amounts to a definition of "over-supply," a term by which he expressed the result of "over-production." He states that "dearth or scarcity, on the one hand, and over-supply, or, in mercantile language, glut, on the other, are incident to all commodities. In the first case the commodity affords to the producers or sellers, while the deficiency lasts, an unusually high rate of profit; in the second, *the supply being in excess of that for which a demand exists at such a value as will afford the ordinary profit,* the sellers must be content with less, and must in extreme cases submit to a loss." [1] From this statement we may fairly assume that Mill's idea of *over-production* was this: a production which affords a supply in excess of that for which a demand exists at such a value as will afford the ordinary profit, while by the corresponding term, *under-production*, he meant a

[1] Principles of Political Economy, Book III. Chap. XIV. sect. 1. I understand that in this place Mill by "ordinary profit" meant, not the average rate of profit of the immediate time under consideration, but an average rate of profit determined by the experience of a series of years. In this sense it may properly be said that the average rate of profit during a year of hard times is less than the "ordinary" rate, the average rate for that year being less than that of preceding or succeeding years.

production which affords a supply so deficient in amount that the demand affords to the producer an unusually high rate of profit. These definitions leave us, however, in some doubt as to the standard by which the profit which is thus made the test of over-production is to be measured. A slight examination, however, will suffice to show that the profit which is to be regarded in determining whether a product has or has not been over-produced is not a profit above the actual cost of the product, but a profit above what it would cost at the time of the sale to reproduce the product; for it often happens that, by reason of improved mechanical processes, the producer of a commodity which has not been produced to an excessive amount is forced, by the competition of the producers of the later and cheaper article, to dispose of his own product without profit, or at a loss as compared with the actual cost of its production. In such case, however, the producer properly attributes his failure to secure a profit to the change in the methods of production, and not to any excessive amount of production. If, however, a commodity will not sell at the ordinary profit over what it costs at the time of sale to reproduce it, there is certainly the best of evidence that there has been an excessive production, resulting in an excessive supply of the commodity, — a production which is mistaken and in error solely as to the amount produced, and which is, therefore, properly called an over-production.

We thus reach the following definition of over-production; namely, *a production resulting in a supply in excess of that for which a demand exists at such a value as will afford the ordinary profit over what the reproduction of the commodity would cost.* This definition of over-production corresponds, as we believe, with the idea of it held by Mill, and also with the ordinary idea of the practical man of business, who, to state this matter shortly, considers that a commodity has been over-produced when it would not pay to increase the supply of it.[1]

[1] Except for the fact that the above definition follows the form of expression adopted by Mill, we should prefer the fol-

The kind of demand above referred to, namely, the demand for a commodity at such a value as will afford the ordinary profit over the necessary cost of its production, will, in order to avoid unnecessary verbiage, be referred to in this chapter simply as *remunerative demand.*

If such be the meaning of over-production, as applied to a single commodity, what is meant by "general over-production"? Let us look first for such light on this point as we can obtain from Mill. His statement is, that, "because this phenomenon of over-supply, and consequent inconvenience or loss to the producer or dealer, may exist in the case of any one commodity whatever, many persons, including some distinguished political economists, have thought that it may exist with regard to all commodities, — that there may be *a general over-production of wealth*, a

lowing as a definition of over-production: — A production of a commodity creating a supply in excess of that for which a demand exists, which is prepared to give in exchange for the commodity an amount of labor of the time of the exchange equal to the amount of labor which would be required for the reproduction of the commodity.

supply of commodities in the aggregate surpassing the demand." And he says further, that these mistaken economists "agree in maintaining that there may be, and sometimes is, an excess of productions in general beyond the demand for them, and that, when this happens, purchasers cannot be found at prices which will repay the cost of production with a profit."[1] To prevent any possible misunderstanding, it may here be remarked that it is evident that Mill did not by general over-production mean an over-production of every individual product, nor indeed an over-production of a majority of products, but an aggregate of production of all products in excess of the aggregate of adequate demand for all products; in other words, an over-production of one or more products without any corresponding and equivalent under-production of some other product or products. That this was Mill's idea is shown further by his statement that, when economists mistakenly suppose that general

[1] Principles of Political Economy, Book III. Chap. XIV. sect. 1.

over-production exists, the real trouble is that the producer "has produced a thing not wanted instead of what was wanted. . . . There is no over-production. Production is not excessive, but merely ill-assorted."[1]

The question of the possibility of general over-production is thus reduced to this form. Is it possible that there should exist at any time an over-production of one or more products, unless there is at the same time a corresponding under-production of some other product or products? In other words, is it possible that one product should be selling for less than the ordinary profit over the cost of its reproduction, unless some other product is at the same time selling at more than the ordinary profit over the cost of its reproduction? Such is the question which we have now to consider.

[1] Principles of Political Economy, Book III. Chap. XIV. sect. 3. By "over-production" in this passage Mill evidently means "general over-production." That Mill's idea is not misrepresented may be shown by the passage already quoted from Macvane's recent work: "It is quite impossible that all products should be in excess of demand at one and the same time. *If the supply of some things is excessive, the supply of other things is deficient to the same extent.*"

In examining this question we shall for the present pass by the somewhat complicated arguments by which Mill and others have endeavored to show that general over-production is *not* possible, and shall offer an argument by which we think it can be shown affirmatively that general over-production *is* possible. For the purposes of this argument we lay down the following proposition: —

If at any time there is a production of a commodity not based upon and strictly proportioned to the remunerative demand for it, but, with the knowledge of the producer, in excess of that demand, then there may at such time be an over-production of that commodity and no corresponding under-production of any other commodity. In other words, there may be in such case a general over-production.

In proof of this proposition, it would seem to be sufficient to say, that if, in addition to such production as is based on and proportioned to remunerative demand, there is another and further production which goes on regardless of that demand, then it is evident that there can be no reason why the aggregate of production may not exceed the aggregate of demand; or, in other words, no reason why an under-production should necessarily accompany every over-production.

We are thus brought to consider whether a production which is not proportioned to but regardless of remunerative demand may actually exist, and we reach our second proposition, which is as follows: —

A production of a commodity not based upon and strictly proportioned to the remunerative demand for the product, but, with the knowledge of the producer, in excess of that demand, may arise, and has in some cases actually arisen, when machinery for the production of the commodity has been created with a capacity of production in excess of the remunerative demand for the product.

That many kinds of machinery with an excessive capacity of production have actually been created in recent years, is a fact so widely known that it can hardly be disputed. And when this excessive machinery is, as is usually the case, the property of different competing producers, the now familiar result is brought about that these competitors find at last that there is no remunerative demand for all their products. Some producer's machinery must stop its work, or all the producers will be forced to dispose of their product at less than the ordinary profit, or even at a loss. But stoppage itself involves a loss, and ordinarily a greater loss than continued production. The owner of idle machinery has upon his hands a costly article of property, which involves him in continual expense for its care and for its protection from the weather, from fire, and from thieves, and which, in spite of all that he can do to prevent it, will rapidly deteriorate through rust and decay. He will also, in allowing his machinery to stop, suffer a further, and in most cases a more serious, loss from parting with and scattering beyond recall the skilled workmen who have been running that machinery, and from driving the customers who have been in the habit of buying his products to seek elsewhere for their usual supply ; and it is well known that a course of trade, once diverted, is not easily restored to its old channel. Under these circumstances it is evident that a large and powerful body of producers — namely, the owners of the machinery of production — may well be brought, and in fact in many recent cases have actually been brought, to the creation of products to an amount not based upon and strictly proportioned to the remunerative demand for those products, but based mainly on their own desire to save and protect their machinery and their business. In order to save and protect these important elements of wealth, men are ready and willing to maintain a production which not only involves no profit, but which often brings to them actual loss. Thus we find it to be true that there may be a production which is, with the knowledge of the producer and intentionally, in excess of remunerative demand; and the conclusion is reached that *there may be an over-production without any corresponding under-production;* or, in other words, that *there may be a general over-production.*

The same conclusion may be reached by a shorter, and perhaps to some a more satisfactory argument, as follows. If men were ready to engage in production, not solely in order to meet the remunerative demand for products, but also that they might gratify a desire for muscular exercise, it surely could not be denied that production in the aggregate might in such case be brought to exceed the aggregate of remunerative demand.. And the result cannot be different if that which men desire to keep active in the work of production is not their natural muscles, but the machinery which serves as an artificial aid to those muscles.

CHAPTER XVIII.

A HARVARD PROFESSOR'S QUESTION.

AT the midwinter examinations at Harvard College in 1895, the following question was put to the students in "Economics I." "*Suppose everybody resolved to consume productively only, what would be the result?*" As I felt very curious to know what the Harvard economists would consider to be the true answer to this question, I wrote to Prof. W. J. Ashley, who according to the Harvard Catalogue stood at the head of "Economics I.," that I should feel greatly obliged to him if he would inform me what he considered to be the true answer to this question. Prof. Ashley wrote me in reply that he did not himself set the question, but that he imagined the examination paper which contained it was prepared by his associate, Prof. Cummings. Prof. Ashley added, that he supposed "that the question was set to ascertain whether the student had really read his Mill carefully, especially the last paragraph of Book I. Chap. III.," and that he imagined that his "colleagues would hold that the answer might properly depend on conditions of time and place." As the only "conditions of time and place" that could be involved in the question appeared to me to be simply those of the present time, and of our planet, the earth, and as upon referring to my Mill I could get no light from the paragraph to which Prof. Ashley referred me, I wrote to Prof. Edward Cummings asking him what he considered to be the true answer to the question which he had proposed. As I received no reply to my note, I wrote Prof. Cummings a second time, suggesting that my first note might have called for so elaborate an answer that he had felt disinclined to answer it, and that therefore I would modify my question and ask simply "Would the result be an increase of the wealth of the world?" a question that would require for answer only a simple "Yes" or

"No." As Prof. Cummings has not vouchsafed to me the ordinary courtesy due from one gentleman to another who has asked him a civil question, — if he was afraid to commit himself by an answer, he might at least have replied that his business was to put, not to answer, questions in political economy, — I have been forced to abandon all attempts to learn how a Harvard Professor answers one of his own questions.

As, however, the Professor's question seems to be one which deserves a careful answer, I will myself give it some consideration. "Suppose everybody resolved to consume productively only, what would be the result?" The first result would evidently be an immediate and total stoppage of the consumption of and demand for all sorts of luxuries, and for all those comforts of living which do not contribute to mankind's efficiency in production. Men would eat simple but nutritious food, would wear cheap and common clothing, would live in plain and simply furnished houses, would travel but little, would have but the smallest use for theatres or hotels, and would seldom employ any domestic servants, male or female. The hundreds of thousands who are now employed in supplying all the unproductive consumption of the world would lose their employment, and be forced to look about to see how they could find occupation in supplying that demand for productive consumption which, by the conditions of the question, would be all the demand that would be left in existence. Now to what would the Professors have these people turn their attention? To what products would they have them devote their labors? Should they all become cheap tailors and hat-makers and boot-makers, and manufacture millions of coats, hats, and boots to be piled up in warehouses waiting for a demand that could never catch up with the supply? Or should they build factories and railroads and steamships, for which, in the diminished demand for those things in a world which abstained entirely from unproductive consumption, there would be no use, and which would be built only to rot and rust and decay, unused and unusable? Surely no one would claim that men should employ their time in the production of any superfluous products such as we have mentioned. It follows, then, that if "everybody resolved to consume productively only," one result would be that it would not be possible to find full employment for everybody, and that every one would be idle a good part of the time, or that many would be idle all the time. Or, to put it more simply, if "everybody resolved to consume productively only," not half the productive capacity of mankind would be called into action.

And, secondly, what would be the result as regards the wealth of the world? Would that wealth be increased or diminished? An immediate result would certainly be that all the wealth that was invested in articles of unproductive consumption or in machinery for the production or distribution of such articles would become useless, and consequently valueless. In this way the wealth of the world would certainly be diminished. Is there any way in which there could be an increase of wealth to compensate for this certain decrease? There could be no wealth in the ownership of things that nobody wanted. In a world where every one's wants were the simplest, there would be but the smallest profit in the ownership of the warehouses, shops, factories, railroads, and ships that would be needed to keep those wants supplied. Wealth could not increase, men could not grow rich, for it would be impossible for men to find new income-producing investments, and the income to be derived from old investments would be reduced to the lowest limits. We arrive, then, at the conclusion that the result of mankind's resolve to consume productively only must be general idleness and a large decrease of the world's wealth. I have not been able to find in Mill or in the writings of the professors of political economy any suggestion of any of these results, and when I ask the professors what opinions they hold on these subjects, they either fail to take any notice of my questions, or, like Jack Bunsby, — who, when delivering his opinions, was wont to add, "The bearings of this observation lays in the application on it," — they reply that the answer to the question "might properly depend on conditions of time and place." It may amuse one to speculate how high a mark the student would have received who should have been brilliant enough to write down this answer to the question in his examination paper.

CHAPTER XIX.

PREVIOUS WRITINGS BY THE AUTHOR AND BY OTHERS ON THE SUBJECT OF THIS BOOK.

THE views presented in this book were first suggested by this author in a communication printed in the Boston Daily Advertiser in its issue for August 8, 1877. That communication was followed at intervals by numerous others in the Boston Advertiser, the Boston Transcript, the New York Nation, and in other papers. The author also set forth his views somewhat at length in an article entitled "Saving versus Spending," which appeared in the Atlantic Monthly for December, 1878. All his earlier writings on this subject were collected by him in 1884 in a pamphlet entitled "Excessive Saving a Cause of Commercial Distress." That pamphlet was followed in 1886 by another, entitled "The

Depression in Trade and the Wages of Labor," and in 1887 by still another, entitled "Over-production and Commercial Distress." The author has also contributed two articles to the Quarterly Journal of Economics, the first entitled "General Over-production," which appeared in the number for April, 1887, and the other entitled "The Over-production Fallacy," which appeared in the number for April, 1892, and an article by him, entitled "Diminishing Returns from Investment," appeared in the Social Economist for April, 1893.

For the views of other writers on the subjects discussed in this book the following references are here given: —

Wealth of Nations, by Adam Smith, Book I. Chap. IX., Of the Profits of Stock; Book II. Chap. III., Of the Accumulation of Capital, or of Productive and Unproductive Labor. — Principles of Political Economy, by Rev. T. R. Malthus, Chap. VII., sect. 3, Of Accumulation, or the Saving from Revenue to add to Capital, considered as a Stimulus to the Increase of Wealth; sect. 10, Application of some of the Preceding Principles to the Distress of the Laboring Classes since 1815, with General Observations. — Political Economy, by Dr. Thomas Chalmers, Chap. III., On the Increase and Limit of Capital; Chap. V., On the Possibility of a General Glut. — Treatise on Political Economy, by Jean-Baptiste Say, Book I. Chap. XI., Of the Formation and Multiplication of Capital; Chap. XV., Of the Demand or Market for Products. — Letters to Mr. Malthus on various Subjects of Political Economy, particularly on the Causes of the General Stagnation of Commerce, by Jean-Baptiste Say. — Principles of Political Economy and Taxation, by David Ricardo, Chap. XXI., Effect of Accumulation on Profits and Interest; Chap. VI., On Profits. — Elements of Political Economy, by James Mill, Chap. IV., sect. 1, Of Productive and Unproductive Consumption; sect. 3, That Consumption is co-extensive with Production. — Principles of Political Economy, by John Stuart Mill, Vol. I. Book I. Chap. V., Fundamental Propositions on Capital, sect. 3;

Chap. XI., Law of Increase of Capital, sect. 4; Vol. II. Book III. Chap. XIV., Excess of Supply; Book IV. Chap. IV., Of the Tendency of Profits to a Minimum; Chap. V., Consequences of the Tendency of Profits to a Minimum. — Chapters on Political Economy, by Prof. Bonamy Price, Chap. IV., Capital. — Article entitled "One Per Cent," by Prof. Bonamy Price, in the Contemporary Review for April, 1877. — The Economy of Consumption, by Robert Scott Moffat. — Principles of Political Economy, by J. R. MacCulloch, Part I. Chap. II., sect. 3, Accumulation and Employment of Capital; Chap. VII., Causes of Gluts; Part III. Chap. VII., Circumstances which determine the Average Rate of Profits; Part IV., Consumption of Wealth. —American Political Economy, by Prof. Francis Bowen, Chap. XVII., The Rate of Profit as affected by the Limited Extent of the Field for the Employment of Capital: The Theory of Gluts. — Principles of Political Economy, by Prof. William Roscher, Am. Ed., translated by John J. Lalor (1882), sect. 23, Equilibrium between Production and Consumption;

sect. 215, Necessity of the Proper Simultaneous Development of Production and Consumption; sects. 216, 217, Commercial Crises in General; sect. 220, When Saving is Injurious; sect. 221, Limits to the Saving of Capital. — Final Report of the Royal Commission appointed to inquire into the Depression of Trade and Industry (printed in 1886). — First Annual Report of the U. S. National Bureau of Labor, by Hon. Carroll D. Wright. — Two articles by Mr. F. B. Hawley, the first in the National Quarterly Review for July, 1879, entitled "The Ratio of Capital to Consumption," and the second in that Review for October, 1879, entitled "The Rationale of Panics"; also a book published by the same gentleman in 1882, entitled "Capital and Population." — An article by Mr. Edward F. Sweet, in the Chicago Times for April 26, 1880. — Recent Economic Changes, by Mr. David A. Wells. — Article on "Trusts," by Mr. Andrew Carnegie, in the North American Review for February, 1889. — An article on "Industrial Depressions, their Cause and Cure," by Mr. Frederick H.

Cooke, in the American Journal of Politics for December, 1893. — Involuntary Idleness, by Hugo Bilgram. — The Fallacy of Saving, by John M. Robertson. — A Fundamental Principle of Political Economy, a pamphlet by Edgar J. Rich. — The Physiology of Industry, by A. F. Mummery and J. A. Hobson. — The Evolution of Modern Capitalism, by John A. Hobson. — These last two books, published in England in 1889 and 1894, present views and arguments substantially the same as those presented in the preceding pages.

In closing, it may be well to say that no professional economist has ever publicly recognized the validity of the theories and arguments set forth in this book. On the other hand, Prof. J. Laurence Laughlin, Prof. Silas Macvane, and Mr. T. B. Veblen have published attempted refutations of those theories and arguments, and Prof. Arthur L. Perry, Prof. W. G. Sumner, Prof. F. W. Taussig, and Prof. Charles F. Dunbar have privately expressed to this author their entire dissent from his views, the last-named gentleman having confined himself to a simple expression of such dissent, and having refused to enter in the slightest degree into a discussion of the grounds of such dissent, apparently deeming this author's views to be entirely unworthy of his consideration, and it may be added that Mr. John A. Hobson, whose two works are mentioned above, has written this author that he has had a similar experience with the English economists, no one of whom, he says, "shows the least inclination to give any consideration" to his theory.

Lest the reader should be surprised at the fulness of the foregoing statement of the general repudiation of the author's views by the professional economists, the author desires to say that he does this only in order to prevent these economists from protesting, when the truth of the views here presented finally becomes apparent to them, that they were never foolish enough to deny such self-evident propositions, but that they had always maintained and asserted them.

INDEX.