CHAPTER XI

Good Times and Bad

THE UPS AND DOWNS OF BUSINESS, THEIR CAUSES, AND WHAT WE CAN DO ABOUT THEM.

The principal distinction in the United States is that of poor and rich . . . A little more poverty in the multitude, and property will fall an easy prey by such means as an income-tax assessed arbitrarily by commissioners in support of any popular measure,—by the establishment of a national paper money,—by a maximum perhaps. The insecurity of property will then operate, as it has done everywhere, in Turkey, in Persia, for instance, and, in a less degree, in those parts of Europe, where the government could raise arbitrary taxes on industry, and where the administration of justice was dependent. The insecurity of property is invariably followed by relaxation of industry and improvements, ignorance and rudeness; and, finally, the establishment of a simple abitrary government. It is no new observation that every revolution contains the seeds of another, most opposite to its nature, and scatters them behind it. We have to see what is to spring up in America from a purely popular revolution.

—LOUIS SIMOND: "Journal of a Tour" 1815, quoted by E. Parmalee Prentice, Esq., in *Political Science Quarterly*

CLOSELY associated with questions of inflation and deflation are what the economist calls economic or business cycles, by which he means alternations of good times and bad times, prosperity and depression, "booms and busts." Economists have long been concerned with economic cycles and have made many attempts to work out a rhythmic succession of these fluctuations and to correlate them to other occurrences.

One writer, Professor W. C. Mitchell, in *Business Cycles,* has attempted to correlate these variations in our economic life with nearly everything. After some four hundred pages of dreary reading, with dubious statistics and bewildering charts, and studying every possible relation of "the economic cycle" even to astrology and sun spots, we at last find the answer! The question is asked if the economic cycle is not a myth, implying that we are searching for something that does not exist! One wonders if the scholarly writer could not have profited by taking a page out of the well-known book on Ireland in which they discuss the snakes. We might sum up the substance of this great volume in a similar sentence: "There is no economic cycle." And, if there isn't, why look for it?

Of course there are fluctuations, no one can deny that; but there is no rhythm, no discernible law of succession, in which these fluctuations occur. It is well to study the reasons for these changes, but to attempt to find a rhythmic cycle is futile; yet, before we get into a discussion of the causes, it is well to say something about what is meant by depressions, or hard times, and prosperous eras.

Good times are characterized by industrial expansion, general prosperity, broad employment, increasing banking operations with banks solvent, few business failures, and high prices in commerce and on the stock market. Earnings, dividends, and wages are relatively high. We have some inflation, for prosperity swells demand and forces up prices faster than production can keep pace.

The simplest description of hard times is to say that conditions are the opposite of those in the good times, with deflation the keynote. Unemployment is wide-spread, earnings are low, production exceeds demand, sales are dull, there are many bankruptcies, prices are low, and commodities are left on the dealers' shelves.

From this it might be concluded that inflation is desirable, for it is often linked with periods of prosperity. Similarly we might say that deflation, when prices are falling, is bad. There is an association of the two, but to say what is cause and what is effect, or which comes first, is as futile as discussing the priority of hen and egg. Inflation often accompanies the changes in industrial conditions which characterize good times, but fiinally the day of reckoning comes! Something goes wrong, some change in circumstances cuts down demand, some factory is over-expanded: it has a big debt to pay for a new plant: the plant is closed because it cannot sell its output, and it defaults on its mortgage. Perhaps there is no bidder for the property and the bank loses: the creditors of the company lose: there is a run on the bank, and the next thing we know, the bank has failed. The disaster spreads far and wide, until half the country is plunged into a depression. We are reaping as we have sown, but there is no evidence that there is a "cycle." Disaster is inevitable: we bring it upon ourselves by reckless expansion, over-enthusiasm, and ungrounded hopes.

This was exemplified in conditions which followed the first World War. During the war there was a shortage of foodstuffs and food prices sky-rocketed. There was constant exhortation to increase farm production; the farmers made more money than they had made in years and increased their land-holdings, buying farm after farm, on credit. All went well for a while; but, when peace suddenly came, and when basic conditions were altered, when there was no longer a shortage of food, and when the men of the war-torn countries went back to farming and again produced their own foodstuffs, there was a terrific slump in prices of the great food staples. The farmer who had borrowed money to grow wheat found that when wheat was selling at high prices, all was well, but when the price was cut in half he just could not make enough to carry his mortgage. The crash came, the mortgage was foreclosed, banks failed. To raise money, securities were dumped on the market, bringing on a crash in the stock exchanges; and we were in the depths of the worst depression the country has ever known.

The great cause of these variations in prosperity is often war, for war upsets the normal industry of a nation, curtailing many activities, forcing employment into production of commodities meant only for destruction—things which destroy and don't add to the wealth of mankind. Prodigal spending and reckless public borrowing give a false sense of prosperity. We have zooming prices, inflation, full employment, high wages, and a great sense of hustle and business—but all built on the unsound quicksand of inflation, debt, and destruction. Hundreds of thousands, and even millions of men, who have been earning their own living, are taken out of industry to serve in the military forces. Instead of being engaged in production, they are engaged in destruction, and must be supported by the relatively few producers left. This means an added demand for practically every product, and demand which is not counter-balanced by increased production; prices rise and we have inflation.

Yet no man in his senses would say that a country can possibly prosper by giving up production of men's needs and spending its time in making cannon and gun powder. We cannot prosper by turning our men from truly productive activities of legitimate manufacture and agriculture, to engage in killing and destroying. Armies and armaments are sometimes imperatively needed for national survival, and "preparedness" is often a wise step and a sound preventative of worse disaster, but war, and all that goes with it, though sometimes inescapable, is always an economic disaster. If we look at the obvious, commonplace, commonsense facts, we can see what folly it is to imagine that the inflation and false prosperity brought about by the scarcity induced by war can be anything real or substantial, to be desired and encouraged.

Over-expansion is often caused by war, but there are other causes which bring on these dangerous conditions. It seems highly probable that runaway land speculation, however induced, may be a major factor in causing depressions. It is significant that apparently the first sign of economic swings is often seen in real estate markets; and, if we were to attempt to play the part of an economic prophet, we would say, watch the real estate prices. When they start to go up, broadly and generally, look for a "boom"; and when they slump, watch out for a "bust."

The depression which followed the Civil War, at its worst from 1874 to 1878, although it was preceded by warnings for a decade, is often attributed to excess of railroad building, but it is hard to see the *direct* connection. Apparently the railroads did play a great part in provoking a wave of land speculation, especially in the West where ending the isolation of great sections of the country promised a great advance in prices. The price of land, and rents, advanced beyond all reason, in anticipation of conditions not realized until long after. This speculation, even at best, might bring disaster, with forced sales and foreclosures, the collapse of prices, business failures, and financial ruin.

There are other factors that upset conditions, and Government policies play a direct part in bringing about these changes. Changes in the tariff often upset industrial life and make trouble, but the great danger lies in spending by government. In an undeclared war, or when we are apprehensive of war, we must prepare for defense, and lavish spending is necessary. This is a danger, but today the real danger lies not in these conditions, terrible as they are, but in the fact that we are throwing away millions, giving it to everyone. We are spending on things not only unnecessary but which we would be better off without, things which are demoralizing—socialistic schemes to be discussed later, useless public "improvements," and subsidies for everything under heaven, to states and to local governments, already demoralized by seeking something for nothing. Not content with throwing money around at home, we scatter it all over the world, to foreign countries and even to countries unfriendly to us.

It is hard to resist attempting to forecast to what end this will bring us. One thing is certain: if policies like these continue unchecked, we are heading for a crash which may cost us our liberty and lead to the destruction of our government as we have known it and under which we prospered for a hundred and fifty years as has no other nation.

This reckless spending and increase in the public debt means a tremendous inflation of money or its equivalent. The great part of the debt is represented by bonds; and, as we have seen, when these bonds are sold, they are manipulated in a way which increases the amount of bank credits. The banks take the bonds and credit the government: the government checks against this balance and puts into circulation the amount equivalent to the bonds; and thus we create, by the mere printing of paper, a vast amount of bank credit which serves exactly the same purpose as money. It increases buying, makes everyone feel wealthy, and makes possible great expansion of business; but there is nothing solid back of it; and when the crash comes, as it always does when things are carried to excess, we must pay the price.

Perhaps, from this very elementary statement of the nature and causes of fluctuations in our economic life, the reader will see how it is impossible that inflation will bring anything more than a false prosperity, which only opens the road for disaster. The further we go in inflation, and the greater the amount of increase of our circulating medium—in this case bank credits—the greater will be the unwarranted expansion of industry and of our debts; and when the crash comes, everything goes down like a house of cards. This gives us the key to the cause of unnatural and excessive booms—great spurts of prosperity, not warranted by conditions. There is this enormous expansion coupled with increase in debt, both public and private, for everybody borrows to take advantage of rising markets, to "get rich" in the stock market, to enlarge his factory and his business, to increase the size of his farm; and, when the smash comes, the results spread like a pestilence throughout our entire economic life.

Looking back into history, we can find no reason to suppose that in ancient times there was this succession of good times and bad, except when, as in Egypt, there was a succession of fat and lean years as recorded in the story of Joseph. They had their troubles and they were wiped out by wars; they were ruined by pestilence; they had all sorts of national disasters like famine; but they did not build up great credit structures on a flimsy foundation, readily toppled over by the lightest breeze. Our present economic life is built on credit. We live on promises; and, if one man fails to keep his promise, the results react through a long chain and become steadily worse.

In 1929, at the start of the great depression, we saw how the failure of one important customer might lead to the failure of a bank, reacting on all the bank's depositors, whose balances might be wiped out or tied up indefinitely. Depositors would be unable to pay their creditors and be forced to sell investments, breaking the price of securities and rendering insufficient the collateral which others had put up with their banks as security, thus forcing its sale; and the situation would go from bad to worse.

If we are to get rid of these extremes, we must get to the underlying cause. We must get rid of conditions which increase money or its equivalent, encouraging reckless spending, leading to expansion and to increased borrowing. It is in these underlying factors that the explanation of panics and depressions lies, and not in any "cycles" or other fanciful ideas.

If we get this clear in our heads, it will be apparent that the situation will not be met by artificial measures, aimed at symptoms rather than at causes. Demagogues and the uninformed insist on price-fixing, but it never does work and never can work. It is immoral, for if two men want to make a free and just exchange, no power on earth has a moral right to interfere with their doing so; and, if price-fixing did work, it would not stop these fluctuations. It would not correct fundamental causes, and we should still be building on unsound borrowing and excessive credit, which sooner or later would collapse.

In times of depression, there is one old fallacy which keeps cropping up again and again—the idea of "making work"—which we have already discussed. There is always a demand to "make jobs," do things the hard way, to hire men to waste their efforts, or to destroy what man needs, so as to "make more jobs." At one time a lot of young hoodlums were encouraged, by those who ought to know better, to break windows so as "to make work for glaziers"; and they did, but how about the home-owners? The simple fact is that our money is always spent for one thing or another, for consumption goods like glass, or for capital goods like a washing machine, and such folly as breaking windows does not create jobs or result in more pay, but simply shifts the direction in which men will work and in which our money will flow. Such hoodlumism means that, for money spent, we shall have nothing to show, whereas if they don't break the windows perhaps some woman will no longer have to bend over a washtub and life will be easier and pleasanter.

The same fallacy underlies the urge to spend and not to save, "to keep money in circulation." Buy something whether you want it or not, but don't save the money, for that takes money "out of circulation." This is the same pernicious nonsense, parallel to the widely extravagent costume ball already mentioned. Robert Louis Stevenson said: "Benjamin Franklin went through life an altered man, because he once paid too dearly for a penny whistle: my concern springs from a deeper course, to wit, from having bought a whistle when I did not want one."

If the thrifty soul, whom some revile as a miser, puts his money into a savings bank, the chances are that it will be loaned almost immediately to someone who wants to build, and it will be spent for cement, bricks, lumber, and a hundred things, resulting in a new house somewhere for someone. Is not this quite as profitable to us all, and in the long run more conductive to human happiness, than if it is all spent over the bar or at nightclubs? From the economic angle, it may make little difference whether we spend or save the money, for it will be spent either way; but from the personal or individual standpoint, it often makes a very great difference.

That our wants constantly expend will be obvious to anyone on a moment's thought. Your great-grandfather did not want a mechanical refrigerator, telephones, an automobile, electric lights, movies, or a hundred things which we regard as indispensable. Our great-grandparents did not even want vacuum cleaners, washing machines, plumbing, or furnace heating—things which we think are the absolute necessities of life. We want them all; and, as we satisfy one want, it expands or another new want develops. There were thousands who were pleased beyond words to have a Model T Ford: today we want several cars in each garage, and generally we think they must be "eights." When we got our first radio, we were pleased: now we want one in every room and in every car, and we shall soon throw them out to be replaced with television. A modern kitchen was a joy; but today, to be modern, it must be equipped with an electric "garbage pup" and an electric dishwasher, and so it goes.

It may sound as if we were a discontented race, we humans; and perhaps we are, but discontent is the mother of progress and is a blessing, if it takes the form of ambition rather than of grumbling. It is what raises men from the brute creation and differentiates us from the lower animals. The dog of a thousand years ago and the dog of today are satisfied with the same food, and your dogs want no better housing than the dog of our caveman ancestors. If today our animals, like ourselves, live a little better, it is not the craving of the animal that has raised their standard of life but the ambition of men, not only to better their own way of life but to take better care of dogs, horses, cows, and everything they own. Man is one animal whose wants continue to grow as they are met, and this is one of the things which separate us by a vast span from brute creation. It underlies all ambition, progress, aspiration, and the quest for improvement. Our constantly expanding aspirations bring each day a better future for the race.

There is therefore nothing to this bogey of over-production. The difficulty is not over-production but under-consumption. Of course we may have too much of this and too little of that—an unbalanced production—or many may be unable to pay for things that they want, but there will always be unsatisfied men and people willing to toil and earn the things that they still covet. As long as we have these restless ambitions and aspirations, our answer lies not in curbing production but in making it more abundant and distributing it more wisely. *The answer lies in liberty, a greater degree of freedom for the individual to work out his own fortune without interference of government or ruinous taxation.*

It seems unlikely that we can do much to mitigate the evils of "economic cycles" by palliative expedients, such as "made jobs" at doing useless things or even through national public relief. Such programs must be paid for by the people themselves, and they amount to robbing Peter to pay Paul. By increasing our taxes, we force others into trouble and bring on crises in the lives of many. There can be little question that high taxation today, prompted in large measure by a policy of taxing some to pay for benefits granted to others, is forcing many older people who, left alone, could live on their untaxed incomes, into dependence on public relief. These programs are also demoralizing, for it is almost axiomatic that jobs and relief so dispensed undermine self-respect and personal responsibility. They are almost always politically corrupting, for inevitably the recipients of these benefits are expected to pay for what they get with their votes.

How these difficulties should be handled may well be studied, but real thought in sound economics is necessary. A sound way to meet the depression problem is by anticipating it and checking the conditions which bring on the "boom," of which the "slump" is the inevitable consequence. Watch out for danger signals: don't let inflation run on unchecked: balance governmental budgets:

cut down taxes; reduce public debt: and avoid over-expansion, particularly the unwise expansion of credit.

QUESTIONS

This deals with a pretty tough subject which, we believe, is not really understood by anyone. We suggest a general discussion of factors which may cause or affect economic cycles, not seeking hard and fast answers.

Will shaken faith in government and its monetary system perhaps produce disaster?

Is reckless speculation in land apt to bring trouble?

Does excessive expansion of building involve some hazard of creating values which may collapse and bring disaster?

Would promoting inflation by cutting taxes on business and industry generally tend to increase production, and thereby to arrest inflation?

Is an economy built largely on credit more vulnerable than otherwise?

Does excessive instalment buying increase the risk?

Is an unbalanced national budget a source of danger?

Is an excessive public debt a hazard?