

CHAPTER II

THE CAUSES OF THE CRISIS.

§ 1. **Technical progress.** I contend that the Capitalist system, in conjunction with technical progress and certain other circumstances, has trodden down the consumer and is on the surest road to digging a grave for production and thus for the whole welfare of mankind in a manner which I am now about to explain.

By technical progress we mean rationalization in conjunction with the Capitalist way of distribution and the mechanization of labour. The main point about *rationalization* is the fact that every year it substitutes a considerable amount of human labour by machinery, excluding thereby superfluous labourers from future processes of production and causing unemployment. In this way these labourers are at the same time excluded from the ranks of consumers, for even if they are getting the dole, this small income is hardly adequate to provide their bare means of subsistence, and their consumption power is undermined.

Let us imagine, for example, that a certain work which formerly had to be performed by a hundred labourers, can now be done, in consequence of rationalization, by merely eighty labourers. The consumption power of the twenty surplus labourers (wage-earners) has substantially diminished, say to one half of their former consumption. In other words this decrease is tantamount to a complete cessation of consumption by ten consumers. (For the purpose of simplification we purposely overlook the fact that half the consumption power of twenty consumers cannot be exactly the same as the

completely lost consumption power of ten consumers.) Thus even if the original production remained the same after the application of rationalization as before (though as a matter of fact it generally increases), ninety consumers would have to consume a quantity of commodities produced and destined for a hundred consumers. Whereas on one hand twenty people would vegetate, production would on the other hand yield more commodities than could be consumed. Although production became easier and more economical, we would be faced on one hand with overproduction, on the other with distress and poverty, and a crisis would result. This crisis would by no means be a crisis of production or of overproduction, but simply a crisis of distribution.

It might be objected that the Capitalist system can hardly be made responsible for the exclusion of superfluous labour from processes of production and from consumption, and that we have no right to blame that system for a state of things caused solely by the progress of science and of technical and economic efficiency. But as a matter of fact the Capitalist system is responsible, for it is only due to its principles that even the most flagrant inequality of income is permissible, on condition that the income is based on the right of private property or of a valid contract. From the point of view of the Capitalist system it would even be theoretically possible and permissible for a single individual to own all property and all the means of production and to exclude the rest of mankind from consumption.

The trouble is therefore not due to rationalization as such, i. e. to rationalization in the sense of economical production which is being carried out and must continue, but only to *rationalization in conjunction with a faulty distribution of products*, detrimental to consumption and therefore also to production. To react on the crisis by the wanton destruction of goods (coffee in Brazil, cotton in the United States) is as foolish as the behaviour of a man who, wishing to level the surface of his garden, digs up the mounds and

carries the earth away, and then fetches fresh earth for filling the hollows, instead of using the earth from the mounds directly for that purpose.

If real (absolute) overproduction existed, then mankind could be happy, for it would live really in abundance, and the remedy would be easy: we should simply reduce the working hours. But under the present conditions we have more goods than some (who are able to buy them) can consume and others (who are unable to buy them) can buy, and at the same time we have less goods than the latter could consume and the former could buy. Even in ancient Egypt they knew better than that, for they stored away the surplus yield of their harvest in years of plenty to provide for the lean years.

The present state of affairs must of necessity grow even worse, since the process of rationalization still continues. The spirit of enterprise, aiming at maximum profit, tends to reduce human labour to a minimum and to produce the maximum quantity of goods in as large and as concentrated an undertaking as possible. The ideal which this *tendency of Capitalism* has in view is therefore one sole productive undertaking for the whole world without a single workman and with but one sole owner (business undertaker). For the producer endeavours not only to enlarge his undertaking and to reduce the cost of production, but also to increase his power in general. We are, of course, discussing this point purely theoretically and considering a state of affairs, not as it actually exists, but as it would develop, if it were not for various other circumstances and obstacles (such as the limitations imposed on production by political power and sovereignty), which deflect the straight line of the original tendency.

We do not hesitate to state at once that this manner of production would be the best one possible, partly because production would become extremely cheap with a possibility of turning out an enormous quantity of commodities, partly because the whole

production would be directed by a single will and purpose, enabling the best organization or the best process of production. But what would be the result? *The best possible production, but the worst possible distribution*, for the only person entitled to consume would be the owner of the undertaking himself, since besides him there would be nobody earning any income, i. e. nobody who could participate in production and who would be receiving a share of the net product as a reward for his work, for the sole agent of production would be the business undertaker himself. Any other consumption besides that of this business undertaker himself would therefore take place only on the basis of charity. It follows that the Capitalist system leads to the best possible production, but to the worst possible distribution.

Let us now examine the tendency of production and distribution according to orthodox *Communism*. I am here concerned with the idea of orthodox Communism, not with the practice under the present economic and political system of Soviet Russia, the substance of which is as different from original Communism as the substance of the English pound sterling of to-day from that of a year ago: the name remained the same, the content has changed. The idea of Communism in its orthodox sense, carried out to its logical conclusion, would result in quite the opposite consequence from that described above, for it would lead to *the best possible distribution, but to the worst possible production*. The chief axiom of Communism is the principle that everyone shall work as much as possible for the whole and as little as possible for himself. The work performed by each individual should be appropriate to his abilities, and his share of the common wealth to his wants. The driving force of personal profit, which under Capitalism is the chief incentive to individual work and enterprise, is substituted under Communism by the motive of love of one's neighbour, or, failing that, by compulsion. But by compulsion it is not possible to obtain from man other than a mediocre performance of work, never

reaching that maximum exertion of ability and maximum efficiency which are obtainable only by promises of reward, but not by threats or pressure. The reason for this is obvious: compulsion implies the use of force and the threat of punishment, for without the alternative of punishment it would not be compulsion. Man can, however, be penalized only for guilt, and guilt can be established only, if the productive potentiality of the individual is known, and if he failed to perform work according to his best abilities either through laziness and negligence, or through evil intent (sabotage). But how are we to know what performance or efficiency to expect from a man, until we have seen him perform that work of his own free will? Threats, pressure and punishment will clearly not suffice. Promises of rewards and premiums are the only means of inducing a man to work with greater efficiency.

For this reason the Bolsheviks have not been able to carry true Communism into practice. For they still pay piece-work wages, efficiency premiums etc. These are only methods copied from Capitalism and its way of thinking, since they reckon with the greediness and egoism of man, as assumed by Capitalism, in contradiction to love of one's neighbour, preached by Communism. Unfortunately there is very little hope that we shall ever be able to abolish these premiums and these methods of remuneration, unless human nature undergoes a radical change, which we have so far no reason to expect. That does not mean to say that it is necessary for a man to be able to keep the whole proceeds from his activities, aiming at profit, in order that he may be induced to work willingly and with maximum efficiency. For his thirst for profit is so strong that he will prefer to gain 100% rather than 90%, or 50% rather than 40%, but if he will have to choose between 2% and 1%, he will take and be satisfied even with a mere profit of 2%.

From the preceding I conclude that the Capitalist system guarantees the most perfect and the greatest possibility of production, the Communist system the best possibility of distribution. For that

reason neither of the two systems can be applied unconditionally and absolutely, and as a matter of fact neither of them does exist in its pure, absolute form. The Capitalist system often abandons in the public interest even its most fundamental principles, viz. the principle of the free disposal of property and of the freedom of contract (witness the fixing of maximum prices or of minimum wages, the laws for the protection of tenants etc.). On the other hand the Communist system offers efficiency premiums. Neither of the two systems is therefore perfect or absolutely consequent. Both are in need of reforms and are capable of being reformed, and it would be worth our while to consider how the advantages of both these systems could be combined and put into practice by means of such reforms with a simultaneous suppression of their disadvantages. In any case I am convinced that the two different systems will not be able to exist side by side permanently.

Rationalization is the most important characteristic of modern economic development, and the problem of *unemployment* which it involves was one of the chief causes of the present crisis. Unemployment of the great mass of the working classes, though in a smaller degree, would have existed even without the present acute world crisis, due to lack of foresight and a general panic, so that the problem of unemployment can by no means be considered a transitory phenomenon. It is a phenomenon immanent and inherent in the very nature of Capitalism, and therefore bound to continue to exist for a long time to come, unless or until a change in the distribution of products occurs (extension of consumption) or the working hours are reduced (restriction of production).

It follows from the preceding arguments that the present so called overproduction is by no means absolute overproduction, due to a lack of consumers in consequence of a complete saturation of consumption, but *relative overproduction*, due to the fact that under the present methods of distribution people possessing income cannot extend their consumption. Here is the key to the present parado-

xical situation in which mankind has to endure privation, because it has superfluous wealth; starve, because of overabundant harvests; go inadequately dressed, because too much cloth has been manufactured; and in general suffer and decline economically, because most of its work is done by machines.

Since people do not realize the real reason of the existence of this apparent excess of commodities, we often hear of different curative methodes which must be described as false, unsound and perverted. These false prophets tell us: If too much coffee has been produced, let us throw some of it into the sea; if the harvest yielded too much cotton, let us burn a few bales every day. If we proceeded according to this advice in general, we would soon end by breaking up superfluous machinery and by removing through operation the superfluous brains of too intelligent people.

My criticism of the effects of rationalization under the Capitalist system provoked unfavourable comment on the part of the *upholders of technical progress* who do not admit that any technical improvement can have unfavourable effects and who ascribe any undeniably untoward symptoms of our economic life to various legislative or administrative regulations which they consider obsolete and therefore unsuited to modern technical development.

These objections to my arguments are obviously founded on a misunderstanding. I never maintained that technical improvement and progress as such is not beneficial to mankind. If I fought for instance against excesses in sport which might cause bodily injury or death, surely nobody could defend these excesses on the ground that sport is beneficial to human health. If I am told that I am wrong in seeing in rationalization and technical progress the only cause of the present crisis, I must emphasize that I see in it only *one of the several causes of underconsumption*, which led to the crisis of production. I emphasize that I consider the importance of rationalization in regard to the crisis to be not quantitative, but qualitative, its precipitate progress being caused by the Capitalist

system. Further I must again emphasize that rationalization as such is not injurious, and that it becomes injurious only in conjunction with the capitalist method of distribution, and even then it is not rationalization itself, but its too rapid progress which is unsound. I am told that according to statistics only a very small percentage of labour is annually excluded from production in consequence of rationalization, but this statement is not corroborated by facts, for the fact of constantly growing and chronic unemployment in different industrial countries is undeniable. On the other hand I once more expressly recognise the absolute great utility of rationalization, and admit that methods aimed at the obstruction of technical progress should be deprecated. But the tax on rationalization, advocated in the second Section of this work, is not meant to obstruct economic progress.

This misunderstanding will be cleared up even better, if we examine the problem from a purely economic point of view. The science of economics teaches that the aim of every economic activity is to achieve the maximum yield or surplus (the principle of economical and rational production), either through the increase of gross produce or output, or through the reduction of the cost of production. Rationalization is therefore nothing but economical production, and concerns only economic and not technical science. To repudiate rationalization would mean to repudiate one of the fundamental principles of political economy on which I base my arguments. On the other hand the aim of technical science, which is also a teleological science*), is more limited, and I call its aim singular as against the general aim of economics. *The aim of technical science* does not therefore include rationalization in the sense

*) i. e. a science, the function of which is to collect, arrange and interpret facts implied in human activities following a certain aim or purpose, as distinct from *causal science* (such as natural science), providing an answer to the question why things exist and examining the cause and effect of phenomena; and as distinct from *normative science*

defined above, based on the economic way of reasoning, but is only directed at the achievement of certain limited results, regardless of the means adopted or of the question of cost or profit. These aims include the mechanization of human labour, the performance of regular actions by machines, the achievement of maximum output etc. The achievement of these aims constitutes the sole mission of technical science, even if the result of these efforts and researches may prove unsatisfactory from the economic point of view (such as the production of many synthetic substitutes, technically feasible, yet unprofitable and therefore economically inexpedient). Rationalization, implying the reduction of the cost of production, has nothing in common with technical science. The latter follows its particular aims, whereas the aim of economics is to estimate the results of its work from the point of view of profitability, and to declare them to be either economically practicable or impracticable. If therefore the technician is speaking about rationalization in the sense described above, he is speaking of economics which are related to, but not identical with technical science.

Nothing can of course prevent the technician from reasoning and criticizing "economically". As a critical economist he may argue as follows: "Not even from the social or national economic point of view (as distinct from the private-economic point of view) can we object to the saving of human labour through technical progress, as the labour thus saved is released for other tasks which otherwise could not be carried out. Nor can we object if the largest possible production is aimed at, for the larger the production, the more prosperous will be mankind. From the private-economic point of view there can be no doubt about the advantages of rationalization. If I am right from the technical point of view, when I introduce

(such as the study of law), providing an answer to the question why things should be. In each of these three categories that point of view and method of logical reasoning is applied which alone can yield satisfactory results.

labour-saving appliances and machinery whereby I achieve my technical object, and if no objections can be raised to rationalization from the economic point of view, how can you uphold your objections to rationalization as one of the causes of the present crisis?"

These arguments sound correct, but they leave one very important factor out of account, viz. the *existing system of legal rules* and norms, which we call the Capitalist System. If we lived under the orthodox Communist system, there would be no unemployment, however large were production, since the wants of all would be satisfied in an equal manner and production would be arrested only after the full saturation of these wants. But under Capitalism important changes occur in distribution. Consumption is admitted only against a „pass-word“, and this pass-word is *money income*. He who has no income, is not allowed to consume. As I remarked before, complete equality of income is probably impracticable and even undesirable, as it would suppress all incentive to greater efficiency. But if it is impossible to abolish inequality of income, then production and distribution must adapt themselves (through distribution) to this fact and submit to a suitable change, as soon as it becomes apparent that, under the existing inequality, production and consumption do not develop in a parallel, but in a diametrically opposite direction. This happens always when production increases through rationalization at the cost of the number of potential consumers (unemployment) and when *differentiation* is not able to effect the absorption of unemployed labour in other branches of production. Unemployment due to rationalization did not until recently acquire any great proportions in the United States, because differentiation helped to absorb released labour, but it broke out at once, when this differentiation failed to function any longer. This failure was due chiefly to the too rapid and one-sided progress of rationalization.

Differentiation takes place only, when the existing possessors of income can devote a part of their income to further consumption

and thereby stimulate new production, or if the number of possessors of income increases. Thus for instance if prices decline in consequence of correctly applied rationalization, a part of income can be saved without causing unemployment. This excess income can then be devoted to new consumption, stimulating the rise of new production, and leading to greater prosperity. But differentiation cannot progress, if incomes do not increase, especially incomes of the lower and middle classes, for *very large incomes do not count*; or if they do increase (through a rise in wages), but if their number becomes smaller (owing to unemployment). For the determination of the higher level of incomes it is of course immaterial whether money income increases and prices remain the same, or whether money income remains the same, but its real, purchasing value increases owing to lower prices. We talk of prosperity, if both the number of the possessors of income, and the level of incomes increase. The latter increase has taken place, but not the former, for the number of the possessors of income has decreased considerably.*) The result is unemployment and an end to differentiation and prosperity. This development could have been rectified by means of *taxation*, but this has not been done and this omission became one of the causes of the crisis. The American capitalist rightly realized that a rise in wages (incomes) is a guarantee of prosperity. He introduced higher wages, but precisely this high cost of labour led to an even greater use of machines and to the growth of rationalization in general, and the consequence was a more rapid dismissal of workmen than could be absorbed by differentiation.

*) In this connection it is interesting to note that the amount of incomes exceeding £ 5000 a year in England reached £ 346 million in 1928/29 as against £ 176 million in 1913/14, while unemployment at the same time has been growing continuously and has become a chronic evil. The number of persons with incomes exceeding £ 5,000 a year was 14,000 in 1913/14, as against 28,000 in 1928/29 (See the Annual Reports of the Inland Revenue Department).

The Americans therefore tried to stimulate consumption by means of sales against payment by instalments, as we shall show later on. But this was only a temporary remedy, an injection which led to a reaction, viz. to the restriction of consumption. This discrepancy was caused by Capitalism with the aid of technical science.

Thus we come back to our contention that a technician may maintain that the question of distribution does not interest him and that he is satisfied, if only he achieves his aims. In this respect he is just as right as a cutler, satisfied with the knife he made, and not caring whether this knife was subsequently used as an instrument of murder. An economically thinking technician may even defend maximum rationalization, provided he pays no regard to a given system of legal order and its method of distribution. But he cannot uphold his point of view, as soon as he places himself on the basis of Capitalism as its adherent and upholder, demanding that distribution and consumption shall be carried out according to the Capitalist principle of distribution. For in that case he speaks at the same time as a technician, as an economist and as an upholder of Capitalism. A discrepancy results, for the interests of these standpoints cannot be fully reconciled. A technician and an economist may demand maximum productiveness with a minimum of effort, but an adherent of Capitalism demands the application of principles of distribution which could *turn the postulate of minimum effort into a postulate of exclusion of all consumers, discharged in consequence of rationalization* (by means of labour-saving machinery). Some compromise of these standpoints in regard to this question is therefore imperative.

The chief point then is this: Technical science may defend rationalization from the technical point of view, and it may, with certain reservations, defend it even from the economic point of view, but it must never succumb to the temptation of trying to defend both the technical-economic point of view, and that of Capitalist distribution. This is done by those critics who, not content

with the technical-economic point of view, defend the Capitalist system and the creation of new capital, maintaining that distribution is of secondary importance. Are we to understand that capitalization and fresh investments in machinery shall proceed unhampered, that no brake is to be put on the continued progress of rationalization, involving a further dismissal of workmen? Who shall consume all the goods produced? This question is said to be of secondary importance. But has not Capitalism made it of primary importance by its a priori verdict that the discharged workmen shall not consume, except by charity, unless differentiation steps in and helps them? That is above all a problem of logic, not of ethics, for its solution cannot be left to the arbitrary decision of sentiment. An ethical axiom in theoretical reasoning may be infringed, a logical one never.

If legislators are, among others, blamed for this crisis, the charge is not devoid of foundation. For *the question of the legal basis of society concerns legislators*, and not technicians. If reforms are needed, it behoves the legislators to pass them. In that case, however, we must not obstruct this course by maintaining that the present manner of capitalization is justified, nay that capitalization must progress. It may progress, but never at the expense of consumption. The measures which I propose are at any rate very moderate. As we shall see later on, I see in the tax on rationalization, aiming at the restraint of undue capitalization, the best solution of the problem of unemployment, which would save us the trouble of mutual blockades by means of tariff walls and other measures for stemming imports of foreign goods, and which would also save us the trouble of fishing for the "last" foreign consumer in search of a market for our surplus produce. Such a procedure is a solution based on the narrow national standpoint and designed to hurt other nations; it is therefore a local, not a world solution of the problem.

I must also once more emphasize that I look at the problem as an

unbiased observer, and it matters little therefore whether I am for or against Capitalism. I only criticize the *unsound aspects* of economic development under the Capitalist system and I warn Capitalism that if it wants to save itself, it must submit to certain reforms. My proposals ought to be therefore adversely criticized by the opponents, not by the adherents of Capitalism. He who does not want to see that Capitalism is suffering from a serious disease, is only hastening its end. The reaction of Capitalism to this disease is the present crisis, but what tremendous sacrifices does this entail! Would we not be better off to-day, had rationalization not progressed so rapidly and had we thus avoided the acute strain from which we are suffering to-day?

Let us now inquire into the question, wherein consist the utility and beneficial effects and wherein the losses and detrimental effects of precipitate rationalization, for only an analysis of these losses, the existence of which is denied by my opponents, can reveal the correctness or incorrectness of my contention.

The *utility of rationalization* from the point of view of society can only consist in the saving of human labour, this saving being profitable and beneficial only in so far as it may lead to an increase of wealth and prosperity in the world. We are surely not trying to save human labour in order to allow a few individuals to live in idleness. If we are unable to find work for the men discharged owing to this saving of labour, then clearly no benefit or utility has accrued. On the contrary a *positive loss* results for society from the fact that these individuals, forced to live in idleness, must be fed and taken care of, at least in so far as their most indispensable wants are concerned. For the doles paid to the unemployed are tantamount to a tax, the burden of which is borne by society as a whole.

To this my opponents reply: "If rationalization is detrimental, then we would have to *return to primitive life* in order to avoid crises. But primitive life means a low standard of living, general

struggle, plague and starvation." I advocate nothing of the kind. I only maintain that the present crisis, with its apparent excess of products, has been caused, among other reasons, by the *Capitalist system of distribution* and by the *too rapid progress of rationalization*. If I say that the excess of production is badly organized, I do not say thereby that distress or poverty is better. This *fault of organization* cannot be abolished by the introduction of poverty which has existed before the era of modern technical progress. If someone fell ill through overeating and lack of exercise, we could not assert that he could have avoided being ill by abstaining from taking any food whatever.

I am also told that it is impossible to draw an exact line up to which rationalization may be considered beneficial and from which it starts to be harmful. The fact is that there is no such borderline of utility either in quantitative or in qualitative rationalization itself, but that the question at issue is merely one of a proper relation between rationalization and differentiation, i. e. absorption of discharged labour in other branches of production. This relation has been upset in no small measure through the policy (of taxation, customs tariffs etc.) of nations who thought that the more money they invested in production, the more their economic power and national welfare would grow. It will be hardly possible to change this policy, except by international consent and agreement.

Finally I am told that rationalization is nothing new, as it existed since the days of Moses. That may be so, but no harm was done as long as the said differentiation did not cease to function properly and lag behind rationalization. In short, my objections to rationalization must not be misunderstood. To adjust or regulate does not mean to hinder and to retard, and to retard does not mean to stop altogether.

The facts which I rely on are undeniable. It is undeniable that workmen have been discharged in consequence of rationalization, and that their absorption through differentiation has failed. The

result is unemployment, which has grown into tremendous dimensions especially in highly industrial countries. These unemployed must be fed and that constitutes an obvious burden for society, unless work can be provided for them. Their permanent idleness is an evident loss for mankind. This detrimental effect is therefore undeniable, and everything else, such as the *shortening of the working hours* ("depriving man of work and toil") is, under the Capitalist system, a remedy for alleviating that effect, for working hours are not shortened automatically. This remedy is by no means easy to apply, and the very existence of this proposal implies that there is something wrong with too rapid rationalization, if it requires remedies. I will deal with this question more fully in the second Section of this work, but I must say at once that it is doubtful whether this is the most suitable remedy. At any rate I have not been blamed that I choose unsuitable remedies, but that I find in rationalization any detrimental effect at all. And that is the salient point. As to the suitability of the said remedy, I consider that it would be better to utilize the abilities of the unemployed for some productive work instead of compelling them to live in idleness. That would require capital. If unemployment were a temporary phenomenon, this money might be raised, but as it is a chronic complaint, the only right way to cure it is through taxation. This would retard rationalization, enable differentiation and provide means for productive work of the unemployed.

§ 2. American business conditions. Having dealt at some length with the question of rationalization on account of its paramount importance for our diagnosis, let us now briefly refer to some other causes. Foremost amongst them is the system of *sales against payment by instalments*. Instead of going to the root of the evil of precipitate rationalization, and instead of applying a proper remedy for curing this disease, inherent in the very nature of Capitalism, America attempted to apply a temporary cure for one of the symptoms.

The Americans argued: "If there are no consumers, let us create them." And this was done by means of instalment business. In this way, however, *future consumption was discounted* and the result of work was consumed before that work had been started. Expressed in terms of money, the producers found consumers by extending credit to them. Instead of trying to stimulate the wide masses of consumers at the expense of the unsound accumulation of income in the hands of a few individuals, and instead of enlarging the circle of consumers horizontally, the Americans only shifted it vertically by turning future consumption into present consumption. The existing consumption power of consumers has not been strengthened thereby, for they were only allowed to use their future consumption power for present consumption, which is something fundamentally different. The share of the small consumers from the common pot of society has not increased at the expense of the rich large consumers, especially not of those who can consume no more, because their wants are fully saturated by their huge incomes, and who do not therefore come into consideration as consumers. The share of the small consumer became larger at his own expense, i. e. at the expense of his own future consumption. The detrimental effect of these methods did not appear at once, but, as we shall see, it appeared soon enough to cause serious trouble.

All of a sudden came the tremendous *crash on the American Exchange*. It seemed that the losses suffered were not real economic losses, but only numerical losses, but that view is not quite correct. It is true that this crash did not actually destroy any goods, as happens in elemental catastrophes or in a war; nevertheless it meant a serious derangement of the process of distribution. Everyone who suffered a loss through the sale of his shares, contributing thereby (numerically) to the wealth of somebody else, became a weakened consumer. His place of a good consumer was not taken by anybody else, because those persons, who became wealthier at his expense, perhaps, and even most probably, belonged

to the class of saturated consumers, for it is a well known fact that only the financially weak are as a rule expelled from the Exchange market on such occasions. In this way thousands and thousands of medium consumers disappeared, and so the ranks of consumers, weakened already by the exclusion of the unemployed, became even thinner. For every Exchange crash must disturb the process of distribution, which is its greatest drawback from the economic point of view.

This crash came at the moment when the problem of instalment business came to a head. New consumers, which could have replaced those struck by the crash, did not turn up, as consumption had been fully exhausted in advance. Moreover goods which were considered consumed, as they had been supplied for purposes of consumption, now came back to the producers, because people who had bought them on instalments and meanwhile became partly or totally ruined, could not pay the outstanding instalments. In this way returned goods, reckoned with as consumed, were now added to the existing stock, and thus a congestion of goods arose which necessarily reacted, according to our preceding arguments, as a mighty shock to production.

§ 3. Psychological reasons. A new circumstance now followed the causes mentioned above. That circumstance, which accompanies every crisis, but which proved especially powerful and almost fatal during the present crisis, is the psychological moment, the substance of which is *fear and anxiety*. It spreads in the form of pessimism and depression, and culminates in a panic. Most people are afraid of the crisis, because they don't know its exact cause, and because all means for combatting it have so far for that same reason failed. We are afraid most of all of the "unknown", of that which we do not know accurately, as we are unable to foresee the extent of the menace. The present crisis seems to many people a spectre, against which it is useless to fight: hence the paramount importance of an exact diagnosis. For if we make a right diagnosis,

we can easily find the means for fighting the crisis, and the only problem remains not so much what these means are, but whether and how they can be applied. It then becomes unnecessary to wait in resignation until the crisis passes of itself, which is the advice of those who appeal to history and try to prove from diagrams that the crisis is a cyclic, regularly recurring phenomenon against which no measures are of any avail. And yet what could be worse than this resigned, hopeless attitude of waiting and of general mistrust and anxiety! Instead of thinking how to replace lost consumption, economically strong individuals themselves abstain from consuming in accordance with their purchasing power and await further developments, without realizing that through this foolish behaviour they aggravate the disturbance caused by the crisis and are helping to turn it into a veritable calamity.

This anxiety has an effect in two directions, both of which are equally lamentable. In the first place it leads to a *restriction of consumption*. Some people postpone the building of a house to a later date, others put off buying machinery and making other investments, others again postpone their travels or the ordering of a new suit of clothes or of boots, and thus in the end the whole world lives at a lower standard out of old reserves, without replenishing them. Nobody offers production a helping hand by consuming more, alleviating thereby its situation through brisker trade. We may even talk of the crisis being aggravated by a general asceticism. Everyone is of course at liberty to live as he likes, even as a hermit, but if such self-denial is practised at the present time by the rich, they must be made aware of the fact that they are contributing to the destruction of production and, in view of the Capitalist method of distribution, that they are destroying at the same time other people, excluded thereby indirectly from processes of production.

People are induced to behave in this way by the decline of prices, hoping to obtain a reward through a further reduction of prices. They are further influenced also by the irresponsible propa-

ganda of many economic experts, often finding support even in Government circles, who advise them to save "in these serious and difficult times" and to wait until conditions improve, little realizing that by this advice these conditions are incidentally only changing for the worse. And finally lower consumption is caused by the declining value of property (such as houses, stocks and shares) or of incomes (business profits, earnings). It is comprehensible that to all these people restriction of consumption can appear as a command of providence and economy.

It is comprehensible, and yet such behaviour is mistaken. For it must be remembered that even if on one hand all profits and earnings have numerically (nominally) diminished, the purchasing power of money has on the other hand increased, and that if everybody began to consume less and less, it would lead to a general economic breakdown, because in the end production would have to stop as it would have nobody to sell to. In this connection it must again be emphasized that the greater the number of consumers, the smaller is the danger of a cessation or undue restriction of production. If there was only one single consumer in the world, immensely rich, but apprehensive, production would be very badly provided for, as it would depend on his decision and mood whether he wanted to consume or not, and thereby also whether production could go on or not. The best safeguard against the outbreak and aggravation of crises thus consists in the broadest and most evenly divided consumption.

The second direction in which diffidence and anxiety exercise their influence, concerns the *disposal of property*. Declining proceeds (business earnings) induce people to see the economic future in black colours. People sell, without thinking, all kinds of property, partly to safeguard themselves against a further decline of prices, partly in order to be on the safe side and have some cash for emergencies, and finally in order to profit from the continuous fall of prices by making favourable purchases later on. *Exchange market*

reports and exchange lists of quotations spread this panic among the public, whereby he who thinks logically, loses in the end, whereas he who succumbs to the panic, gains. For it is true that the productiveness of an efficient undertaking may remain unimpaired even if the price of its shares goes down. But a general panic undermines not only the prices of shares quoted on the Exchange, but, as we shall see later on, earning capacity and productiveness as well. Whereas normally the breakdown of productiveness precedes the collapse of the prices of shares, here the process is the reverse, and the panic-stricken seller of shares not only contributes to the collapse of the prices of shares on the Stock Exchange, but jeopardizes the undertaking itself.

It might be objected that the Stock Exchange in this case only adapts itself in advance to an unavoidable development, that it foresees the collapse of productiveness, and that therefore it only adapts the price of the shares to the anticipated lower profitableness of the undertaking. If it were so, no responsibility would attach to the Exchange, on the contrary it would deserve our praise for its providence and foresight. But it is not so, for a general débâcle on the Stock Exchange produces mistrust and pessimism, and depresses the value of all kinds of property, paralyzing thereby *not only the consumption power, but also the willingness* of people to consume, which leads to a further decline of the sale of goods and of the earnings of the undertaking. Thus for instance the holder of certain shares sells them at a lower price than that which at the time corresponds to the actual earning capacity and productiveness of the undertaking, underestimating thereby the real value of the shares. In a short time, however, reduced consumption begins to reflect in the reduced productiveness of the undertaking and the undertaking begins to decline. And now comes the said former owner of the shares and boasts of his wonderful foresight, little thinking that he himself is an accomplice in the complot which led to this disaster which he "wisely foresaw", like a man saying that

he foresaw the explosion of an undermined rock, when he himself lit the fuse. He might of course excuse himself by saying that had he not sold his shares, others would have done it. Even in this respect therefore the well known constant fear is at work, which prompts us to act lest someone else should get ahead of us and forestall us by obtaining an additional advantage thereby. It is the same reason for which so many people are crushed to death when a fire breaks out in a theatre or a cinema, and for which so many strikes and lock-outs fail. In short it is a *lack of solidarity* and of that quality of self-control of which the British race is rightly proud. It would be the grateful task of the world press to promote calmness, caution and cool common-sense among the public on such occasions. Unfortunately on the present occasion it failed to perform this duty, having on the contrary succumbed itself to nervousness and contributing therefore little to the preservation of confidence and optimism in the world.

Fear is also at the back of other rash actions which people take in respect of their property. These include the *withdrawal of banking deposits; runs* on banks, which may force them to stop payment, and *outflow of capital*, which may lead to exchange difficulties.

If after the preceding arguments we recognise that the faulty distribution under the Capitalist system and precipitate, one-sided rationalization, implying a constant exclusion of people from consumption, are the chief causes of the present crisis, if we further recognise that the crash on the American Exchange and the consequences of the exaggerated use of instalment business provided the direct impulse to the outbreak of the crisis, and finally that the general lack of confidence and alarm, culminating in a general "sauve qui peut", aggravated the crisis to that deplorable extent which we are witnessing to-day, then we must admit the inference deducible therefrom that *this crisis is a crisis of consumption and distribution.*

If we know wherein consists the fundamental evil, we shall not have great difficulty in ascertaining the rest of the causes. All of them lead to the restriction of the number of potential consumers

§ 4. Customs tariff obstacles. One of these causes is the fact that capitalist production has *lost extensive overseas and other markets* which had been formerly supplied by its manufactured wares. These markets include Russia, China and India, i. e. countries, the total population of which by far surpasses one third of the total population of the world. This circumstance meant a serious blow for Western trade and industry.

Another cause is often seen in the *tariff barriers of small economic units*. It would be exaggerated to ascribe the chief responsibility for the crisis to this circumstance, nevertheless some blame does attach to it, in so far as it contributed to the present state of underconsumption.

My opponents might argue as follows: "Customs barriers undoubtedly are opposed to the principles of economical production, i. e. to rationalization. The essence of rationalization consists in the fact that a smaller number of workmen and a smaller quantity of raw materials are needed to produce the same quantity of goods as before, or that a larger quantity of goods is produced with the same amount of labour and of raw materials. The latter case predominates and presupposes *eo ipso* a larger number of consumers, and a large home market. If the home market is too small to consume the whole production, customers must be sought abroad. But if foreign countries shut themselves off to the imports of these goods, then we are faced with a situation analogous to the behaviour of a man trying to increase the speed of his car by putting his foot on the accelerator, whilst at the same time putting on the brakes to slow it down. Such foolish behaviour would not cause more damage to the said car than the damage caused to the principle of modern economical production by the erection of high tariff walls by small economic units. — Considering your argument that the pursuit of

economical production (rationalization) in conjunction with the Capitalist method of distribution is one of the causes of the present crisis (i. e. of its symptom of unemployment and of the consequent loss of consumers), we must conclude that customs barriers, influencing the development of rationalization unfavourably and contributing even, in contradiction to the principle of economical production, to the continued existence of various less efficient industries, only alleviate the crisis and provide an opportunity of work for the working classes. Customs barriers cannot therefore have been one of the causes of the outbreak or of the aggravation of the crisis."

A one-sided abolition of the customs tariffs (by one country only) would certainly have been impossible, for in that way the country, adopting suddenly a complete Free Trade policy, would definitely lose all that it would thereby concede to foreign countries as regards opportunity of work and of consumption, and it would probably have to erect a tariff wall again, even if this was opposed to the principle of economy. But if *several small nations* decided to abolish customs tariffs in their mutual relations, then undoubtedly, in the long run, the free world exchange of goods would profit therefrom. Some of the countries would have to give up various branches of their production under the pressure of foreign competition, against which they could no longer protect themselves, but on the other hand they would gain in other branches of production (for instance in agriculture) by better possibilities of sales in foreign markets then open to them. The total consumption of the whole area, consisting of small nations with a free mutual exchange of goods, would increase and thus unemployment would diminish and the possibility of future crises too. However necessary or not protection may appear from the point of view of economic nationalism, from the standpoint of world production the *tariff walls of small economic units are undoubtedly harmful* to world consumption which they depress by depressing production. In this

connection I must also once more emphasize that in principle I am not opposed to economical production as such, and that I am by no means defending uneconomical production ("glass-house industries"), as practised by some of the small countries with inadequate industrial production after the war.

It is inadmissible and impossible that every country should produce itself all that it needs. It is all the more inadmissible on the part of small nations, as the modern methods of industrial production necessitate concentration in the largest possible undertakings for the sake of economical production. Giant factories with pigmy home markets are obvious contradictions. Unfortunately the idea of local self-sufficiency has of late become fashionable, although more for reasons of national prestige than from necessity. What will become of world trade, if we shall all strive for greater national self-sufficiency?

Into the same category as customs tariffs belong also various *subsidies* and export bounties. Capitalism is based on the idea that prices automatically regulate production. This function might almost be called statistical, as it substitutes statistical calculations and data, which would otherwise be indispensable for the purpose of regulating production. Every artificial interference in the question of prices destroys this function.

We said that the tariff walls of small economic units are harmful. Nevertheless the customs tariffs, the number of which was multiplied by the Peace Treaties, cannot be considered the sole cause of the crisis, for the crisis is not due to a lack of goods, but to relative overproduction of goods. The implication of this statement will become clearer if we examine the question what would become of Europe without any customs barriers, as distinct from the question examined above of the abolition of tariffs by small nations in their mutual intercourse. *Europe without any tariff barriers* could utilize even more its productive equipment in favour of more economical production, and production therefore would be

much more plentiful than to-day. But it is doubtful if the ultimate consumer would profit thereby, on the contrary we may suppose that huge undertakings could even more convert all savings into industrial equipment to the disadvantage of ultimate consumption. We should probably have an even more rationalized production, but consumption and unemployment would be even worse than to-day. The more rapidly rationalization can progress, which again depends on the amount of capital and savings at the disposal of society, the less it is possible to fight against unemployment through differentiation (i. e. by finding new occupation for superfluous, discharged labour). Such would be the results of general free trade from the European point of view, whereby I leave apart the question of losses which would accrue therefrom to individual weaker nations, whose industries would succumb to the competition of stronger nations.

It is of course impossible to foresee with certainty how conditions in Europe would develop under general free trade, but it may be presumed that, as regards racial composition and talent, these conditions would resemble very much those prevailing in the United States of America. Nevertheless there is one serious difference between Europe and America: the United States are a homogeneous whole with an uniform standard of life and uniform earning possibilities, as well as with one common language. Movement of population from one place to another is an every-day occurrence there. That could perhaps be imitated in Europe after some time, but during a long transition period the linguistic and racial distinctions, as well as the unequal standard of life and differences of character and civilization would certainly act as a powerful brake on the process of the amalgamation of Europe as an uniform whole. Those countries which to-day have powerful resources of capital and strong industries, would surely for a long time hold a predominant position over weaker nations, for powerful trusts would be formed in the former and not in the latter (owing to the

presence of skilled labour, tradition, means of transport, proximity of strong consumers etc.; even now we see that large American works build branch factories in England and Germany, and not for instance in Jugoslavia where labour is much cheaper). Higher rates of wages, usual in these territories with an old industrial tradition, would nevertheless be counteracted by intensified efforts at rationalization, and it may be therefore assumed that for some time unemployment would increase. The incongruity between industrial and non-industrial areas would have to be modified by and by, and after some time it would probably disappear almost completely. Only then would prosperity and the standard of life of Europe as a whole begin to rise and exceed the present standard in Europe divided by tariff walls.

I maintain therefore that even if we take into consideration the whole of Europe, *the abolition of tariff walls would lead to greater prosperity in the long run*, but as a short term cure of the crisis it would hardly be efficacious and would probably do more harm than good. To put it in other words, from the European point of view customs frontiers are an evil, but a lesser evil than that which would follow their immediate and total abolition.

§ 5. International debts and reparations. The accumulation of large incomes in the hands of a few individuals, of which we spoke in a preceding paragraph, viz. the accumulation due to rationalization and rendered possible by the Capitalist method of distribution, permitting the most flagrant inequality and leading to the restriction of the number of fully consuming persons, refers in substance to individual members of society. But the same applies to whole nations, for the same influences which rationalization has on individuals, are at work in international relations, especially as regards the indebtedness of whole nations as higher units of society. In the same way as individuals become the prey to unemployment and cease to function as normal consumers,

whole nations, and often whole continents, may become impoverished and lose their power of consumption.

A deplorable accumulation of financial power, as accumulated and concentrated consumption power, may be compared to a large fungus which saps the strength of the tree of consumption in a double direction, viz. either *individually*, i. e. in relation to individual consumers (through rationalization, as explained above, or through speculation on the Exchange, leading to the impoverishment of individuals); or *cumulatively*, i. e. in relation to whole nations (through international indebtedness which, especially after the War, rendered whole nations tributary to other nations for decades to come). To the same category belong the consequences of *inflation*, rendering whole classes of consumers, and often whole nations, destitute.

Our reference to the accumulation of wealth has not and does not want to have anything in common with political propaganda (about the "exploitation" of the masses) which emphasizes the moral aspect of this question. We are only trying to explain in a strictly scientific manner, i. e. on the basis of economics, how consumers change slowly, but continuously into non-consumers. The whole world, not excepting those in whose favour this accumulation has hitherto been taking place, has an interest, in fact a personal interest, that a remedy be provided as soon as possible. For although it is true that those favoured by this process gain on one hand as consumers through the accumulation of financial power and income in their hands, they lose on the other hand as producers, since those potential consumers, who could buy the goods they produce, decrease in number and vanish. This circumstance has so far escaped the attention of many, so long as the problem was not as acute as it is to-day, but can it be overlooked now, when we are standing so to speak on the brink of a precipice? We are running the danger of realizing this truth too late, when the reduced number of producers will have been faced with a complete lack of oppor-

portunity of selling their products, as there will be no consumers. These producers will become as kings without subjects, as Midases drowning not in gold, but in products for which there will be no consumers.

Crashes on the Exchanges, inflation and deflation processes and international indebtedness are the surest means, whereby to complete and bring to a head the menace of disaster implied in accumulation. "Weak" and "fairly strong" consumers will be wiped out, and only the "very strong" ones will remain, i. e. those who are the beneficiaries of that process of accumulation.

For this state of affairs we have to thank undoubtedly above all the United States, where the process has been accelerated and has rapidly approached that aim which I described as the utopian ideal of Capitalism, viz. the concentration of all production in the hands of a single ruler of machines and undertakings, without the employment of any human labour and without consumers. America is therefore in my opinion at the same time a land where Capitalism reached the acme of its development, and where it began to decay. It is a good example of my hypothesis, for America as a consumer gained an advantage over Europe, but as a producer lost in the sphere of international cumulative dynamic inequality. That she holds the first place also in the sphere of individual dynamic inequality, will surely be denied by nobody.

Europe may be compared to an unemployed labourer, drawing a dole from America in the form of moratoriums and reductions of debts, and permitted to buy from America on instalments in the form of loans and credits. It is a sort of *instalment business on a large scale*, without goods, but with vouchers for goods (with the sole exception of loans for investments). The only difference is that the debtor (Europe) has already in advance eaten up — or rather blown up in shells during the War — his portion and the portion of his children from the large pot of common goods.

The worst category of international debts from the economic point of view is the category of *war debts*, for they owe their origin not to any productive investments, but to purely unproductive purposes, in fact to purposes which directly destroyed production and future prospects of production. There are debts which may lead to greater prosperity of future generations, but war debts on the contrary impoverish them, without contributing to the wealth of the generation which contracted them, for they did not serve consumption which creates new values and increases prosperity, but on the contrary they served only forces of wanton destruction. These debts lead to the underconsumption of debtor nations, which cannot be made good by the overconsumption of creditor nations, as long as the consumption of the latter is saturated.

Europe owes huge sums of money to America. Has it ever occurred to anyone to inquire into the question, how or whether these debts can ever be paid back? International payments may be rendered only in gold or in goods (labour). America refuses to accept goods or labour, for she erected a prohibitive tariff against the imports of foreign goods; and almost all the gold of the world is in America already. If in addition she buys up all the European industries — and she is on the best way of doing so — she may, for the sake of rationalization, close the majority of undertakings and produce commodities for European consumption either only in American, or in a few European undertakings; but with what money and how will the Europeans be able to pay for these commodities?

International indebtedness undermined the consumption power of debtor nations no less than the facts mentioned in previous paragraphs. Instead of profiting from the growing production by increased consumption and increased wealth and prosperity, these debtor nations are suffering from declining, or at any rate stationary, consumption, and this again leads to apparent, artificial overproduction, reacting unfavourably on the general economic development.

As to the question of *reparations*, it obviously cannot be considered the chief cause of the crisis. An economic disturbance due to reparations has taken place only in so far as payments already rendered are concerned, but not in consequence of obligations which are to be fulfilled in the future. The drawback of these international engagements consists in the fact that the transfers (i. e. the transfers of gold or money, not of goods) can be carried out only as long as they do not jeopardize the stability of the currency of the transferring State. This drawback does not attach to payments in kind (i. e. in goods), which may impoverish the debtor nation, but cannot lead to currency difficulties and cause a crisis of production, except in so far as they imply underconsumption. If we leave apart these payments in kind, we are confronted with a balance of payments, containing on the side of payments money transfers to foreign countries, against which, we must put, on the side of receipts, any receipts of money from abroad, from whatever transactions they may result (for surplus exports, shipping and other services, tourist traffic etc.). To these receipts must be added also loans contracted in foreign countries, which constitute an increased liability (of the burden of national indebtedness) and involve payments in the future, but which for the time being restore the equilibrium of the balance of payments of the debtor nation. In this connection it must be remembered that the loans so far contracted by Germany (especially in England and America) surpass by a few thousand millions of marks the amount which Germany has paid in money transfers on account of reparations.

The damage which Germany has suffered or which she may suffer, is the following: 1) *pro passato* the presumable impoverishment due to payments in kind; 2) *pro futuro* a serious injury which might result, if Germany were to pay reparations actually in gold. We have described above the losses resulting for the world from the underconsumption of a tributary nation. The payments

which Germany has been rendering in kind hitherto, could hardly have caused the outbreak of the crisis, for underconsumption in Germany was caused in a far greater degree by unemployment than by these payments. From an objective point of view reparations cannot therefore be described as the main cause of the crisis. In the future, of course, the question may become different: should all the debts actually be paid back in full, serious losses for world economy might result therefrom. But the outbreak of the crisis *in the past* cannot be deduced from this *future* jeopardy.

On the other hand we cannot overlook the fact that it was just owing to these imposed reparation payments that Germany, besides the United States, has become the most rationalized industrial country in the world, and that her industries are therefore better than any equipped to compete with other countries. If therefore someone were to assert that the Peace Treaties were one of the causes of the present crisis, because through them Germany was compelled to accelerate the progress of her rationalization, he would not be quite wrong. But if he asserted that reparations caused the crisis, I could not see any justification for such a surmise. This conjecture could apply only to the danger in the future, but never to the origin of the crisis in the past.

The whole matter may be put this way: If Germany is not exempted from paying reparations, new disturbances may be expected. On the other hand if reparations are cancelled and Germany is completely exempted from these engagements for good, we shall have to reckon with an advantage which Germany will have over other nations, in consequence of her first-class organization and equipment, whilst competing with them in the world market. By means of loans Germany gained capital and a splendid productive outfit, and she will pay back her debts with finished goods which will be the cheapest on the Continent.

In this way I think I have exhausted the list of the most important causes which led either to the outbreak or to the aggravation

of the crisis. I leave out purposely certain *other reasons*, important though they may be, such as the depreciation of silver, which weakened the consumption power of nations with a silver currency, or the crisis of agricultural production. I do not enumerate all these causes, since they all, whether they led to or aggravated the crisis, fall into the same category as those mentioned before, viz. into the category of *forces which undermined the consumption power* of large masses of the population. A correct diagnosis does not, of course, assure a correct remedy, but it is undoubtedly indispensable, if such a remedy is to be found at all. The means, which we propose should be applied to cure the crisis, are discussed at greater length in the next Section of this work.

§ 6. The importance of the various causes.

From the preceding arguments it is sufficiently clear that we cannot attach the same importance to all the causes. The most important is obviously that cause which does not lie in any erroneous, inapt or malevolent human action, but in the inherent nature of the Capitalist system. Erroneous procedure, evil intent, omission or neglect of sufficient care may be repressed by law. But a defect which is inherent in the very nature of the whole system of legal rules of our society cannot be easily rectified, for it is apparently no misdeed which, according to our laws, could be prosecuted. It is therefore necessary to reform the whole system.

I might be told that unequal distribution of net produce has always existed; how then could it have caused such a serious disturbance of the whole of economic life so suddenly and only now? There are several reasons for the explanation of this fact, the most significant of which are the following:

a) Never before has production and consumption grown to such dimensions as after the War. American consumption especially showed great capacity of expansion. At the same time production has never been so dependent on consumption as nowadays. Production has become very cheap and has assumed and reckoned with

an ever growing demand for large *quantities* of the same kind of commodities (hence mass production). The postulates of low prices and of a ready sale of goods became almost equally imperative for the ever growing production. The process of manufacture, in which division of labour is carried out into minute details, not only forces the workman standing in front of the ever moving belt to work incessantly, but compels also that undertaking to develop the greatest productive capacity. Constant growth of production requires, however, uninterrupted possibilities of marketing, i. e. of selling the products. It is the same situation as that which results when a large crowd of people begins to move: if the current of people comes across the slightest obstacle, a calamity may follow. The first row of people stops, and their standstill reacts through the whole crowd until it reaches the last row which is squashed and knocked over. The stagnation affecting the marketing of products reacts on production all the stronger, the more incessantly production strives for expansion. A sudden cessation of sales, caused by rationalization and by the collapse on the Exchanges, demanded a restriction of production and not its further expansion. Industries were faced with a choice between the restriction of output, which would have necessarily led to increased cost of production and higher prices, and the maintenance of unrestricted production, implying the reduction of the prices of commodities. The first alternative seemed impracticable, and therefore the second alternative was chosen, whereby products were sold at prices, involving certain losses. But even then an adequate market was not found, for meanwhile the consumers had been overcome by fear and mistrust. We must therefore see in the *constant powerful growth and progress* of modern production the chief cause of the intense stagnation of trade.

b) Production accommodated itself to the hunger for goods, prevailing just after the War, and equipped itself accordingly. But in estimating the marketing possibilities, production failed to take into consideration the question of how far consumption had been

starved out by the War and how far the stock of goods had been exhausted. Figuratively speaking, it made arrangements more with a view to Capital than with a view to the interests of this famine of goods. Given the existing distribution of net produce, marketing possibilities are, of course, fairly limited. The extraordinary hunger for goods and the insatiable urge towards productive activities, which existed just after the War, are of course in no way comparable to the consumption of to-day.

c) Inequality of distribution became especially acute after the War. The United States became the central cell of the process of accumulation. Efforts at concentration in trade, banking and industries, and also currency fluctuations (inflation, deflation) greatly favoured the development of accumulation.

d) Inequality of income has always existed, but a situation analogous to the present is quite unprecedented. For in a very short space of time, almost at a moment's notice, unemployment and underconsumption acquired those tremendous proportions which we are now witnessing. Production is quite incapable of coping with the new situation and of adapting itself to it without serious losses and upheavals.

It must further be considered that a far greater number of people than ever finds its livelihood in *industrial production*. The clear sign of this development is the growth of large cities and the industrialization of almost all countries. A crisis of agriculture, especially if due to overproduction, has never such serious consequences as an industrial crisis, and every disturbance of the latter kind (in the sphere of rationalization) is therefore felt much more acutely now than in former times. Unemployment (underconsumption) could have therefore never before acquired such dimensions and caused such serious derangement of consumption as nowadays.

e) Finally we must not overlook the difference between static and *dynamic inequality* of income. The effect of static inequality

is merely the incomplete utilization of the full capacity of people for consumption. It cannot therefore cause any crisis of marketing, i. e. stagnation of trade, for production reckons with static inequality and works only for people capable of consuming and not for people incapable of consuming. Any difficulties in the marketing (selling) of goods cannot therefore arise for production on that account. Static inequality only reduces the possibility of increasing production beyond certain limits and thus leads to limited prospects of profit (*lucrum cessans*), not to any actual damage or emergency (*damnum emergens*).

On the other hand dynamic inequality originates only subsequently, i. e. after production has increased. It originates unexpectedly, after a larger consumption capacity of the market had been achieved already and after production had adapted itself to this increased consumption. It is a process of turning consumers into non-consumers. This dynamic inequality is *positively detrimental* to production, for it deprives it of the marketableness which had existed up to then and on which it could and had to count. Here we have therefore a clear case of *damnum emergens*, not only of *lucrum cessans*. Unemployment and financial ruination of many are only typical examples of the way in which this dynamic inequality reveals itself.