Depression and the Profit System

The Cause of the Crisis

By LOUIS FISCHER

MANY solutions of the present economic crisis have been offered. We have heard arguments for inflation, reflation, and deflation; for higher tariffs, lower tariffs, and a tax on food; for labor armies, shorter weeks, doles, and public works. But our politicians and economists have been groping blindly for a way out simply because they do not know the cause of the crisis. Correct diagnosis must precede the cure.

Thirteen lines safely concealed from the public eye in the "Handbook of Labor Statistics" published by the United States Bureau of Labor Statistics in 1931 hit the nail on the head more squarely than anything that has yet appeared on the subject of our economic woes. Miss Mary Van Kleeck read them at the Senate Finance Committee hearings several weeks ago. In the small compass of eighteen lines the one great reason for the depression is set forth vividly and beyond dispute.

> That the average yearly earnings in manufacturing industries were 76.2 per cent greater in 1899 than they had been fifty years before, that the value of the product per wage-earner was 130 per cent greater, that the value added to the raw material as the result of manufacture was 119.8 per cent greater, that the per cent wages bore to the value of product had decreased 23.2 per cent, the per cent that wages were of value of product added had decreased 19.8 per cent, and wholesale prices had decreased 13.1 per cent.
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> By 1929, or thirty years later, the average yearly earnings had increased over 1849, 431.5 per cent, the value of products per wage-earner had increased 651.7 per cent, the value added by manufacture per wage-earner had increased 649.9 per cent. The per cent that wages were of the value of the product had decreased 29.2 per cent, and the per cent that wages were of value added had decreased by the same amount, while prices had increased 60.6 per cent.

So simple. Yet supposedly clever people have been bothering their heads for the last four years and have failed to hit upon the thought suggested by these illuminating figures. What do they show? The profits of manufacturers have risen sky high. Each workingman has been producing much more. The value of goods put out by American factories has greatly increased. But the workingmen are receiving in wages a much smaller share of that value. I dismiss, for the moment, the unethical procedure whereby labor—and that means the man at the lathe as well as his white-collared colleague at the desk—is paid less for creating more. The chief point is this: the total value of products is greater; the total national wage bill is smaller. Then how can the wage- and salary-earners of the country buy back what they produce? They cannot.

The result, obviously, is a "surplus" of values which the recipients of pay envelopes cannot consume. What happened to this "surplus" which has been accumulating rapidly since 1899? It went first to the profit-takers, that is, to the manufacturers, and to the middle class of distributors who lop off a percentage of the industrialists' profits. And to the extent, often exaggerated, to which wage- and salary-earners participated in the operations of the stock market during a few boom years, they too got in on those profits.

In the second place, absolutely, wages rose, and the country in general enjoyed a fair standard of living. But the relatively very much reduced share of the producers in the consumption of their products resulted in a vast accumulation of unemployed wealth. At the same time we began to lend more and more money, which is another form of manufactured values, to foreign lands. Clearly, then, the profit-takers too could not consume the entire "surplus" of the nation's goods, and some of it had to be exported.

Why was it not invested at home? Large sections of the United States are underdeveloped or altogether undeveloped. Millions of people in the South, West, and even in the East still live in wooden shanties devoid of modern conveniences. Plenty of Americans suffered from low living standards even before the depression. During the first twenty years of my life I lived in many houses in Philadelphia, "the city of homes." (The family moved often because it could not pay the rent.) Not one of those "homes" had electricity or a bath or an inside lavatory. Yet all those houses are still standing and still inhabited. Why did we finance the electrification of homes in Dresden and Munich with post-war loans when there are homes in Philadelphia and Baltimore without electric light? The answer is clear: the wage- and salary-earners of Philadelphia and Baltimore and of thousands of other towns in America could not, because of the decline of their earnings in relation to the value of their products, have bought the electricity and the many similar conveniences and commodities which would have resulted from the investment at home of the sums sent abroad. And the more wage-earners there are, the worse the situation grows, for each of them contributes toward the "surplus." Our colossal lendings to foreigners, therefore, were merely the reverse side of reduced internal purchasing power and should, incidentally, have served as a warning of impending trouble.

Now if the gainfully employed had recouped in stock-market profits what they lost through receiving a shrinking slice of the goods they created, all would have been well. But that was impossible. It would have wiped out the capitalists' profits. Moreover, the concentration of America's wealth and America's national income in fewer and fewer hands has gone on apace for many years, so that despite the wide diffusion of stock ownership, profits were remaining with a decreasing percentage of the population which was too small to consume those profits. Rockefeller, Ford, and Schwab and their brother multimillionaires cannot eat twenty beefsteaks a day, or ride in fifty Packards, or inhabit seventy villas each. There is a natural limit to individual consumption. In other words, the people who wanted to consume all did not have the means, and the people who had the means could not consume all. Hence our reduced domestic purchasing power. Hence our huge foreign loans which may never be repaid. Hence idle factories, unemployment, starvation armies, and all the other lovely features of the last four years.

That is the diagnosis. What is the cure? Since the difficulty is the concentration of economic profits in the hands of the people who cannot consume them, the solution, logically, is the division of those profits among people who want to and could consume them. And to prevent a recurrence of the present crisis, a system must be devised for distributing equitably in the future. Divide and redivide profits. That is the way out.

The most direct method of redividing old profits would be a capital levy. Provision for a perfectly equal division of surplus value in years to come would be socialism, which eliminates the profit of the capital-owner. There cannot be much hope that either of these measures will be adopted in the near future. We are in the stage when the new Administration seeks to redistribute old wealth by halfway and "painless" methods. The agricultural paragraphs of the farm bill propose to divert some of the city's wealth to the farmer. If the city did not also include fifteen million unemployed and many million underpaid workers, this would be a levy on the rich. As it is, it will check urban consumption more than it can increase rural purchasing power. Inflation, secondly, aims to transfer old wealth from the creditors to the debtors. Actually and ultimately, it reduces the savings of the middle class and cuts the real wages of the workingmen—America's two largest consumer groups. But we will potter around and try such devices as these, always hoping for the mystic "rebound" from God knows where which will miraculously improve the situation and keep us in "prosperity" until the operations of the profit system again clog the wheels and bring on the next depression.

Crises Are Not "So Simple"

By HENRY HAZLITT

I AGREE with Mr. Fischer entirely in his belief that we cannot prescribe remedies for the crisis unless we know its causes, that "correct diagnosis must precede the cure." But I can see no reason for believing that his own diagnosis is the correct one. Even if there is an element of truth in it (and the facts are so complex and many-sided that there is an element of truth in scores of apparently contradictory diagnoses), it is obvious that it represents a violent over-simplification. Mr. Fischer is using the changing shares of labor and capital in the product of industry, first over the fifty-year period from 1849 to 1899, and then over the thirty-year period from 1899 to 1929, to explain the crisis of 1929. But if this change to labor's disadvantage has been going on for eighty years, why did not the crisis come sooner? Why 1929, and not 1926, or 1919, or 1905, or 1899 itself? Was the depression of 1921 the result of labor's decreasing social share? Then how explain the sharp recovery in 1923? Were all the depressions of the last eighty years the result of labor's decreasing share? Then how explain all the recoveries? Does Mr. Fischer believe that all the crises were brought about by the same cause, but that each recovery is to be explained by a different cause in each case?

Mr. Fischer's diagnosis rests on the theory of crises developed in the 1840's by Karl Rodbertus and later adopted by Karl Marx. It rests on the thesis that labor receives a constantly decreasing share of the social product; that as the great mass of wage-earners have a diminished purchasing power, consumption fails to keep pace with production; so that a contraction of production follows, with unemployment and a further decrease in purchasing power, leading to an intensification of the crisis. The defect of this theory is that it cannot answer the sort of questions I have just asked. It makes it difficult to explain why we are not always in a crisis, and impossible to explain how we ever surmount one.

Let us turn from theory to facts. In his factual statements Mr. Fischer is not always careful. He speaks of labor being "paid less for creating more"; he remarks that "the total value of products is greater, the total national wage bill smaller." Such statements are flatly contradicted by the quotation he cites, which shows that the average yearly earnings of the worker increased more than 400 per cent in the eighty years from 1849 to 1929. The same 1931 "Handbook of Labor Statistics" from which Mr. Fischer's statistics are ultimately taken also shows (p. 846) that hourly wage rates increased in the thirty-year period from 1899 to 1929 by 233 per cent. Even when we allow for the increased cost of living and the reduction of working hours in the meantime, the laborer's command over goods, as shown by Paul Douglas's figures, increased by 35 per cent in this period. So it is not true that the total national wage bill was growing smaller, or that labor was being "paid less for creating more." It was being paid *more* for creating more. Perhaps not *enough* more; but that is a different contention, to which I shall return later.

I may point out, however, that the figures Mr. Fischer quotes are themselves misleading. This is not the fault of Mr. Fischer, who merely repeats Miss Van Kleeck's quotation, nor is it the fault of Miss Van Kleeck, who merely quotes the passage from the "Handbook." It is the fault of the author of the article, Ethelbert Stewart, the United States Commissioner of Labor Statistics. He has committed a simple fallacy of selection. He has compared the figures for the particular year 1849 with the figures for the particular year 1929, and presented the result as if it accurately reflected a general eighty-year *tendency*. But if he had taken, for example, 1869 and compared it with 1921, and presented his results in the same way, he would have been obliged to say:

> By 1921, or fifty-two years later, the average yearly earnings of workers in manufacturing industries had increased 291 per cent, the value of products per wage-earner had increased 281 per cent, the value added by manufacture per wage-earner had increased 289 per cent. The per cent that wages were of the value of the product had *increased* 2.7 per cent, and the per cent that wages were of value added by manufacture had *increased* 0.7 per cent.

If Mr. Fischer wishes to make a more scientific approach to the study of the 1929-33 crisis I should advise him not merely to take wholesale a period of eighty years that included at least a dozen depressions and their subsequent recoveries, but to devote himself to a more intensive study of the period between the last crisis and the present one—the period, say, from 1922 to 1929. One of his main textbooks will be "Economic Tendencies in the United States," by Frederick C. Mills, a thorough and meticulous study recently