TAKING STOCK

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THE Great Depression of 1930-32—almost as famous now as The Great War— may be almost at an end. The Stock Exchanges of New York and London, and the Continental Bourses, have maintained an active tone for some time past. Prices of some raw products, notably wheat and cotton, have risen of late slightly but steadily. Indices such as that of the Cleveland Trust Company suggest that the fall of all commodity prices into an apparent abyss has been arrested. Industrial activity also has increased in some directions, although still falling elsewhere. And there are other signs which some students will regard as showing a change of the conditions most fundamental of all to any improvement. Among these signs are the lowering of the rates of interest, for instance by conversions of Government loans, to levels that accord with existing rates of profit. Thus will the costs of capital be reduced and borrowing be given a needed stimulus. Signs also are the occasional notices of loans by the American Reconstruction Finance Corporation (the engine of a 'controlled inflation'), and even the rumoured resignation from the Bank of England Governorship of Mr. Montagu Norman, notorious enemy of inflation. These last phenomena perhaps may not be much regarded in Canada where some economists are too 'practical' to be interested in Mr. Maynard Keynes's theories of the power of bank-rate over profits and over the state of industry and trade. Nevertheless the changes in the general situation which can be traced directly to monetary factors like the Bank of England's suspension of gold payment and the Federal Reserve system's easier money policy are admittedly among the most important reasons for our expecting a recovery. And so the belief grows that Humpty Dumpty may be getting back on the Wall again, although more by his own efforts than by those of the King's Men.

A widely accepted view of 'depressions' has been that they are for society what 'stock-taking' is for the individual firm. There is a tendency, the protagonists of this view say, to over-optimistic statement of the values of what Adam Smith called 'stock', meaning 'capital', whether in the form of stocks and shares and representing organization and good-will and estimated earning-power, or in the more tangible form of buildings or machines, or in the form of the training of men. The value of 'stock' is a function of two variables, these being, one, the amount of sacrifice involved in the saving (i. e. abstaining from present consumption) that is required for capital to be made available, and the other, the amount of the demand for the use of capital. This latter factor, demand, rests on men's estimates of what productivity the 'stock' will have for them, in terms of quantity of goods they expect it to help them to produce, and in terms of prices they expect to get for these. There are estimates, liable to error, at every stage of a free-enterprise economy—estimates of the values of goods on hand, of the earning power of machines and of skills, of the demand there will be for different commodities, and so on; and these must be corrected by a process the same as that used by the farm woman who has brought too much butter to market. Where the machinery of the market works not on physical quantities of butter and butter-buyers, but on anticipations of quantities, costs and prices existing only in business men's heads, there nevertheless occurs also the necessity for all of the apparent values of capital goods to be examined and revised, brought into closer relation with their actual earning power. Prices of stocks and (more fundamental) of factories and machines and men, must be marked down to levels at which the existing demand will take up the supply. Just as 'French model' garments, left over from last season, must be given a new value when moved for this season to the lower-price basement, so the college graduate in commerce and the machine for washing bottles must undergo periodic adjustments of the prices. Even 'saving'—new capital—may be offered in quantities more or less suited to demand, so that the interest-rate also often requires to be changed.

It is not the point at issue in this paper that there may be flaws in the 'stock-taking' theory of depressions. Stock-taking on this grand scale may be seen to be unreasonable, perhaps impossible as a proper adjustment of supply prices to a given demand, when and if it is shown that it automatically and necessarily forces down the general demand-schedule at the same time and in the same or greater degree as it attempts to correct supply prices. Some of the latest theorizing about trade cycles suggests that wishing for the moon is an important help in getting it,—and that there is no more important influence on commodity prices, earning-powers, state of trade, than our expectation of what these will be. Of course expectations of the sort considered have a basis in fact. The decisive expectation in our sort of industrial system—the expectation of the 'entrepreneur' or 'undertaker' to make profits or losses from possible business actions which confront him—is based on facts of rate of interest, wage-level, and the like. But it is asserted by Mr. Maynard Keynes and others that the expectation of losses, which causes entrepreneurs to desist from new business and to restrict old, can be prevented. If this were to be done, if rate of interest and bank discount rate were kept at the proper level to encourage continuous creation of new investments, with a profit, society might be kept in a continuous state of moderate 'boom'. Only a few people are yet completely convinced that by Mr. Keynes' method or any other can continuous economic progress be substituted for our present 'ups and downs' with the 'downs' seemingly negating progress by extending farther than the 'ups'. Thus 'stock-taking' yet serves, in spite of this neglected problem of whether it is economically necessary, to describe the marking down of assets, whether quantities of wheat or factories or skill of men, as it still takes place. Those wishing for more about what might be, may consult the September 17 and 24 issues of the English *New Statesman and Nation*, where are articles by Mr. Keynes on a Financial Policy for the English Labor Party.

Any shop-keeper knows that stock-taking involves a certain loss. There is in the first place a paper loss. Goods cannot be sold, the shop-keeper now admits, at their former marked prices. But the mere changing of price-tickets in itself destroys no utilities. Neither does the restatement of the paper value of landed property or of machines. There is, however, in every stock-taking a certain amount of real cost,which must be entered on the debit side of accounts, which creates a loss. The small shop-keeper must take time off from making sales, or must work at night. And in stock-taking on the grand scale, in our 'depressions', this cost reaches a tremendous amount. In this latest depression the cost has been so obviously large as to suggest that we ought to take stock of our stock-taking. What has this depression cost, and have we won anything which will balance the account? Have our methods of achieving a new and more accurate statement of the value of our possessions been perhaps so haphazard as to make the whole procedure valueless?

It is now agreed by most economists and even some business men that the cost of stock-taking by the economy as a whole is too large. There is waste, colossal waste in the idleness of men and machines through periods almost as long as the periods during which normal business is carried on. Both the owners of machines and the owners of muscles and brains suffer tremendous losses being denied the comforts of the goods they could have made, being denied the sense of material security without which their non-economic interests can hardly be satisfied, being denied the satisfaction of work, while we are having our 'depressions' and are 'taking stock'. The cost of depressions is reckoned in terms of possible satisfactions not achieved, or in terms of 'utilities' not created, although the business men and sometimes the economists are none too clear about this. All value depends on utility—on the capacity of a physical good to satisfy some person's want. Whether the business man bemoans the fact that the depression causes loss because his plant is producing only 20% of the goods it could, or whether the economist notes the loss of money which the decline in the total of bank credits proves, it is utility that is the ultimate loss. And as to the amount of the loss of potential utility in the last two years there needs nothing to be said.

But there is one utility which economists and business men do not often count, perhaps because it would be so hard to apply to it the measuring-rod of money. To draw up a demand schedule for the utility of 'knowledge' would be a task which would relieve unemployment among statisticians for a considerable time. It may even be doubted if knowledge is a utility at all—most people feel considerable dissatisfaction at being compelled to acquire it. But if not a source of satisfaction in itself, it is yet a capital which should earn utilities, as even the most reluctant student at a correspondence school believes. Therefore, if it could be shown that in this depression we have learned somewhat, it might be possible to show that our stock-taking has not been dead loss.

If it could be shown that we have learned a better and less costly way of accomplishing our stock-taking, or a way of avoiding the need for it, it might be agreed that this particular stock-taking, this Great Depression, has paid for itself and yielded, on balance, a gain. To one claim that a better way has been found, reference has already been made. If the Depression could serve to make newspaper editors and members of Parliament, the popular teachers, study monetary theory, business might catch from them enough knowledge to cause some improvements in present banking practice. There would be a gain if North American teachers of economics could be weaned from their love of graphing stock-market vagaries to a little more consideration of pure theory. Mr. Wells' proposals for social betterment, given in his *Work Wealth and Happiness of Mankind* and in shorter essays, might be widely read and criticized. Even the Russian experiment can teach more than its popular supporters are wont to claim for it, if our depression leads to the discovery by the ordinary man of the essential differences between that economic structure and the one which is 'depressed'.

The sum of what the Great Depression ought to be teaching does not end with the mere wish, however general and strong, that no other like it should ever occur. There are many fundamental economic and social truths to be learned. There is for instance what Ruskin stressed in *Unto This Last*. This is the truth that anyone unemployed is not necessarily weak or lazy. Willingness to work does not always carry with it opportunity to do so. Ruskin asked, can the man who is willing and able to work, always find work, and earn the essentials of efficiency and of a full life by his work? It should have been sufficiently demonstrated by now to everyone that the answer is often No. The fact of unavoidable unemployment, together with what has been shown of the effects of this in creating 'unemployables', creates both an economic and a social problem. The economic problem is integral to our present industrial structure, in that perfect markets, wherein demand and supply are quickly and smoothly co-ordinated, have not yet been made to exist. An elementary illustration is provided by the history of hiring systems at the Liverpool docks in Sir William Beveridge's book on unemployment. There are attracted to the work of unloading ships enough men to take care of the maximum of work at each of the several hiring stations, which makes a total larger than would be necessary if the demand for dockers were organized into a single market, since the total of the maxima that ever occur at any of the stations is greater than the total demand in the docks as a whole at any one time. Thus unemployment is greater where demand is split up into several markets instead of being organized into one. And there is a social problem of what best to do to maintain the well-being of the unemployed. Is relief most efficiently provided by charitable organizations, or by the state? Can local or can central authorities best administer relief? Should the provision made for the unemployed be 'relief', or insurance which they deserve and have earned by faithful work when work was to be got? Should the unemployed be subjected to the 'means test', that is, should they be forced to exhaust their private savings before being given the public substitute for their normal wages?

There existed on this continent in its prosperity a curious and also insidiously powerful perversion of Puritanism, which the Depression could earn gratitude by destroying. M. André Siegfried, in his famous book *America Comes of Age*, showed how strong was our tendency to interpret literally the notion that the Lord maketh the righteous to prosper. The righteous prosper; the prosperous are righteous; it is wicked not to own a motor-car. This is not logic, but it is among our strongest prejudices. Thus there is truth in the advertiser's reiterated statement that a man is judged by his motor-car; and many people believe that God is with them in their way of making judgment. Have our calamities of the last years finally taught us that there was never in many a millionaire any more substance than there now is in his bank-account?

Something else which this depression may have been enough to prove is the illusoriness of the 'invisible hand' postulated by Adam Smith. It was Smith's doctrine that a power and wisdom superhuman causes the desire for his own personal good that animates each individual man, if given scope through free competition, to produce the right amount of all the goods and services which people want. Each man seeking his own welfare creates the optimum of welfare for all. This doctrine, however, has been already controverted in countless particular instances; we have limited men's freedom to seek their private good by selling 'gold bricks' or issuing false prospectuses. But we still claim to adhere to this belief in freedom for the individual as the best for all, while declaring that competition when it is between railroad systems is 'ruinous', when it is between Russian wheat exporters and ourselves is 'unfair' or 'dumping'. Has our inconsistency come home to us now, and have we realized that there is nothing sacrosanct about individual enterprise? Or must we go on making the assumption that where the guiding principle of freedom is not obviously inferior to co-operation or control, there God must be, making all things go well? For most people it is the most fatuous optimism which makes them think that because we have not discovered with our own brains a better way, God or Nature or Browning ("All's right with the world") must be directing us in the best way. And those few who claim philosophical justification for the belief (say on Leibnizian grounds) are the victims of bad logic. The truth of the matter is that although the machinery of the competitive market may be in many cases the best we can devise, for cutting off the demand for wheat, for instance, at the level of the supply which weather conditions have fixed for the season in their arbitrary and uncontrollable way, yet this machinery does by no means create perfect happiness for everyone. And it might be possible, if we were to look long enough, to find some more direct method of adjusting supplies to demands than the method of market price. We might even find some other criterion of what demands should be satisfied from limited supplies than the amount of money the demanders have with which to pay.

And on the other hand are the critics of the present system showing too often a stubborn refusal to learn which is more hideous than the complaisance of Rotarians. Old Socialists and young Christians, avid of change—have they been taught caution by being asked to be definite about the changes they propose? Some of their statements, made from the platform and in non-technical journals, suggest that one of the needs of the day is a Defence of Capitalism! Such a work would show—and something must show—how intricate are the problems connected with any economic system. Critics of the present need to understand the principles of increasing and decreasing returns, before they advocate the creating of more employment by state investment in this and that, here and there, and now and then. They need to understand how interest curbs the production of capital goods, and how profit is the spring of progress. Something needs to be done especially to obliterate sentimentalism, the easiest vice of reformers, which shows itself for instance in the indiscriminate praise of Russia we are hearing. This sentimentalism gone, it might become generally known what exactly is the 'planning' which distinguishes the Communist economy from our free-enterprise one, and is more fundamental than any differences in the 'capitalisms' which both are. It might then be possible, also, to discuss these economic matters without the intrusion of purely political matters such as the differences between dictatorship and democracy which distinguish Russia (and also Italy and to a degree even Canada) from Great Britain or France or Sweden.

Have we learned? This seems to be the most important question which can be asked about the period of depression which may be now about to close. Are politicians and public opinion, business executives and street-corner agitators, any wiser than they were? Is there anything whatever to set down on the credit side as we take stock of these years of ruthless stock-taking?

I hold no quasi-metaphysical theories either about suffering that deepens and enriches the human soul, or about the knowledge of the human race sweeping onward like a river in ever-increasing volume. Therefore it is to me no answer to the above questions to say, "of course we have learned something, aren't we always learning something". My philosophy holds that no knowledge is worthy of the name unless it has pragmatic value, or more specifically, unless it contributes to my enjoyment either in itself or as a means. Now economics is a pleasant subject, with a fascinating structural character somewhat akin to that of music. But the trade-cycle carries with it acute discomforts which outweigh the mild joy coming from puzzling out Mr. Keynes' formulae descriptive of it. On the other hand, however, I am young enough to anticipate several decades of economic effort, so that there would be a large element of credit due to the Great Depression if it had taught our whole society to take steps to prevent each of my decades from being disrupted by an economic crisis.

It is possible to wish that this Depression may not pass too quickly away. Before industry gets on into a 'boom', it is desirable that a great deal more thinking be done. Mr. Leonard Woolf has indicated in *After the Deluge*, his study of communal psychology, what misery can do to create the strong sentiment in favor of change which is the prerequisite of any measure of social progress. Mr. Woolf's argument would go to show that if a Dialectic of human history is ever possible, it will have neither a Hegelian nor a Marxian colour, but will be based on the empirical fact that if people have suffered enough they will do almost anything to bring about some change. There has been an amount of misery even in Canada, so 'fundamentally sound', that most of us are afraid to try to reckon it, in our stock-taking. If there has been enough of this misery, there may be going on enough thinking to make possible changes which will perhaps prevent 'the next depression', or even prevent the next 'prosperity' from being like the last. Surely no prosperity so superficial as the last will ever receive the name again. Surely in our stock-taking we have decided to throw out our piles of cheap gilt clocks which never keep time. Let's have done with living for our motor-cars or our bathing-suits or our fountain-pens.

Mr. Woolf in the book mentioned does not consider whether the degree of misery suffered by people affects the nature of the changes they make. But it would seem a defensible corollary to his hypothesis that a certain amount of misery stimulates to thinking and to rational change, while too much stirs to fury and blind change and revolution. There is little fear of the Depression having gone on so long as to cause the latter sort of change in America. For Germany, yes: it is a wonder that it has not come before now. For England, possibly, and more possibly than is generally thought. But here we may not have had enough. Reform is pointing out possible ways for us to move, but we have not yet gone far. Perhaps we should be saying, "pray God the depression last long enough!"