PROFITS

BY

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AND

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PREFACE

WHY must industry as a whole slow down because of 'overproduction,' when millions are suffering from 'underconsumption?' Here is at least one economic question that anybody can answer. The main reason, plainly, is that in a period of increased productivity the time soon comes when the people who want the goods which have already been produced lack the money wherewith to buy them. This answer, however, merely brings us to another question, and one which appears to baffle the entire financial and industrial world: *What causes this deficiency of purchasing power?* Or, to put the question in another way: *Why is it impossible for the people, as consumers, to acquire and enjoy all the commodities which, as producers, they are perfectly able and willing to make?*

The concluding section of this book, Part V, is an attempt to answer that question. The answer is based no less on *Money*, a book issued two years ago by the Pollak Foundation for Economic Research, than on Parts I to IV of *Profits*. The reading of *Money* is, therefore, to some extent a preparation for the reading of *Profits*. Since, however, some of those who have not read the earlier work will read *Profits*, we here give references to various parts of *Money* and summaries of other parts.

The reader of *Profits* who wants to get the substance of what we have to say, without going very far into the technical analysis or statistical basis, can take short cuts by following the guide-posts along the way. The reader who, on the other hand, wishes to pursue the statistical inquiry beyond the text will find references in the Appendix.

Although Part V is in substance a separate book, it is included in this volume because, on the one hand, we do not care to present such a justification of the existing money and profit system as appears in Parts I to IV, except in connection with the adverse criticism of that system which is the central theme of Part V; and because, on the other hand, we do not want our adverse criticism of the system to be considered apart from all that we have said in defense of it. Either our justification of the established economic order or our objection to it, standing alone, would misrepresent our position.

All that we have said in *Money* and in *Profits* leads to this main conclusion: Through no fault of any one class or any one agency, the established and approved methods of financing increased production and accumulating savings prevent the progress which otherwise might readily be made toward higher standards of living. The reason is partly because the total disbursements of industry in a period of expansion at first yield consumers more than enough money, and presently much less than enough money, to buy the additional output at the prevailing price-level; and partly because consumers, under the necessity of saving, do not spend even as much as they receive. The inevitable result is overproduction or, as we prefer to call the malady, 'underconsumption.' Wherefore producers as a whole, in a money and profit economy, have no choice; they must curtail production. Thus prosperity engenders depression; and there is no possibility of sustained progress toward achieving the material basis for higher standards of living.

What is the way out? That question will be uppermost in the minds of most readers; and they will be disappointed, no doubt, because we do not offer a definite answer. We venture no such answer at this time, partly because we regard an understanding of the problem as the first need; and we want nothing to stand in the way of an unbiased consideration of the problem itself. Once there is general agreement concerning the goal, there will be no lack of efforts to find the means of reaching the goal; but until men agree where they want to go, there is not much point in discussing the best way to get there.

Moreover, the best way is not likely to be discovered until statistical research has made further progress in various directions. Some of these we have pointed out from time to time, but only in a tentative way. As we said in the Preface of *Money*, so we say here: These pages are only introductory; an indispensable groundwork, we believe, but nothing more. Here we deal only with some of the larger aspects of monetary phenomena, the significance of which appears to be overlooked at times in discussions of business problems and reform programs. We hope soon to discuss certain refinements and qualifications, and in due time to propose plans for solving the problem.

For the present, we shall be content if readers agree with us that all proposals for changes in the established order, no matter from what source they arise, must be discussed in the light of the characteristics here outlined of an industrial society based upon the exchange of goods and services for money, and at a money profit; a society, moreover, in which both corporations and individuals are obliged to save. All this is fundamental. In so far as our exposition is erroneous, it must be corrected; but in so far as it is sound, it must be accepted as the admitted basis of all constructive programs.

'Nowhere,' says J. M. Keynes, 'do conservative notions consider themselves more in place than in currency;

yet nowhere is the need of innovation more urgent. One is often warned that a scientific treatment of currency questions is impossible because the banking world is intellectually incapable of understanding its own problems. If this is true, the order of society, which they stand for, will decay. But I do not believe it. What we have lacked is a clear analysis of the real facts, rather than ability to understand an analysis already given.'

Far-reaching changes in the established order are sure to come, for the people are and ought to be dissatisfied. Moreover, they are becoming increasingly aware of their political power, and they are giving more and more thought to economic problems. Measures are sure to be taken for the purpose of removing the unquestionable defects of the present money and profit economy. The only question is whether these measures shall be taken intelligently.

Upon those who are capable of dealing with this intricate problem rests, therefore, the responsibility of leading the way. The trouble is that it is precisely those who are competent who are most complacent. Those whose mental endowment and business experience would enable them to see the essential factors of the problem and to expose the folly of various radical reform programs, if they would make the necessary effort, are faring very well with things as they are. Partly for that reason, they frown on *all* proposals for substantial changes, no matter from what source these proposals come.

Before they achieved success, many of these men were unhappy over the inefficiency and injustice of our industrial system and eager to do something about it; but now that they have won fortunes in spite of conditions which once seemed to them intolerable, they are inclined to think that any one who is not equally successful has only himself to blame. They do not see that the financial mechanism of industry is such that nobody can achieve great material prosperity except at the expense of others; nor do they see that, in any event, the problem of society is to take human beings very much as they are, and make the world a better place for them to live in.

However imperfect this book may prove to be, it is much nearer perfection than it would have been had we not taken advantage of the criticisms of the distinguished economists who have read the proofs: Herbert J. Davenport, Paul H. Douglas, Irving Fisher, Wesley C. Mitchell, Gilbert H. Montague, Henry R. Mussey, Warren M. Persons, Carl Snyder, and Allyn A. Young. These friendly critics, we hasten to add, have no responsibility for the substance; indeed, we are not sure that any one of them is prepared to accept our main thesis. Nevertheless, they have helped us to square our exposition with generally approved economic doctrines, as far as we ourselves are prepared to accept these doctrines. And that is far. Indeed, large parts of both *Money* and *Profits* are orthodox economic theory and, as one of our critics remarks, 'none the worse for that.'

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WILLIAM TRUFANT FOSTER
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INTRODUCTORY