

## The cause of the crisis

In the two preceding articles it was shown that the fundamental cause of the crisis is not to be found in the defects of the world's monetary systems, and that the collapse of the gold standard, in this and other countries, was not responsible for the chapter of accidents but merely one of the features of the economic collapse. The real cause of that collapse has now to be determined. In discussing the depression in which the trade of the world has been floundering since the end of 1929, it is usual to relate the sequence of dismal events since then to the sharp break in general gold prices that occurred at that date. Thus Sir Henry Strakosch, in a Memorandum on the Crisis (Supplement to the *Economist*, January 9th, 1932) writes that, "To-day it is difficult to imagine that, even among the uninstructed, there is anyone who does not regard the fall of commodity prices as the root cause of the present crisis." A discussion of the cause of the crisis can therefore fairly take as its starting point the sharp fall in prices that has occurred during the last eighteen months.

The answer to the question, "Why did prices collapse in 1929?" contains the explanation of the causes of the crisis. It can be affirmed straight away that such factors as reparations and war debts, tariffs, mal-distribution of gold, failure on the part of creditor countries to lend unlimited amounts to debtor countries etc., were not the cause of the fall in prices, although they may have helped to intensify the decline. The price structure crumbled in 1929 because then a number of factors, such as those just mentioned, combined to reveal the unsound position that had been built up in the preceding years.

After the break that occurred in 1921, the general level of gold prices remained comparatively steady up to 1929, although there was a slight downward tendency from 1925. This steadiness in the general price level is of importance, because it occurred at a time when production of all commodities was expanding rapidly. The expansion was due to a variety of causes. In industrial production the extension of capital equipment, the simplification of processes, new inventions affecting technique, rationalisation, etc., were characteristic of the period preceding 1929. The truth of this statement is so obvious and well known that it is hardly necessary to elaborate the point. Nevertheless, it is perhaps worth while to refer to the following statements taken from the Commerce Year Book for 1930 (U.S. Department of Commerce). While they only relate to American conditions, they are indicative of world trends:—

*"For 1929 the index (of industrial production) stood 18 per cent above the average for the base period from which it is computed (1923-1925) . . . On account of the increasing efficiency of manufacturing industry, resulting in greater output per man employed, the number of workers in factory industries has shown no such upward movement during post-War years as is shown in the production statistics. There was, in fact, some decrease in the number between 1923 and 1927, the latest year for which complete census data are available . . . In the factories each wage earner on the average is aided by engines and other prime movers of a capacity of 4.7 horse power: in 1899 the average was 2.1."*

In all branches of mining the opening of new areas, for example, the new copper fields in Central Africa, estimated to be capable of satisfying, by themselves, the whole world's requirements (see *Manchester Guardian Commercial*, March 7th,

1929), and new methods such as those that have permitted gold to be mined at greater depths and that raised the percentage of refined petroleum recoverable from crude oil from 26.8 per cent in 1920 to 44 per cent in 1929, added to productive capacity.

The same tendency manifested itself in agriculture. As an example wheat can be taken. The production of wheat (excluding Russia and China), which was about 368 million quarters a year before the War and averaged 391 million quarters in the four years immediately after the War, rose 480 million quarters in the bumper crop year of 1928, and averaged 447 million quarters for the four year period 1927-30. For all practical purposes it can be taken that the increase in production has been accompanied by a nearly equivalent increase in acreage, although notable increases in the yield per acre have occurred in some areas. The higher yields in these parts, however, have been offset by the low yields in some of the newer areas, where production has not yet been fully developed. The increase in acreage is attributable to the expansion that took place during the War, when belligerent Governments were prepared to pay high prices for foodstuffs for their armies, and to biological and mechanical discoveries. For instance, Canadian acreage is now two-and-a-half times what it was before the War. The introduction of the Marquis variety of wheat alone permitted the cultivation of areas which had formerly been unsuitable, for climatic reasons, for wheat. It was stated in the Report of the Imperial Economic Committee on Wheat (1931) that, "The striking result of these biological developments has been to extend very greatly the area within which wheat can be grown. By sowing these newer types, wheat is not cultivated fifty to a hundred miles further north than was possible ten years ago" (page 29). In the same report the opinion is expressed that "the most significant change (in wheat cultivation during the post-War period) has been the rapid increase in the application of mechanical aids to the farm in the principal wheat producing and exporting countries." Later the following facts are quoted to show the extent to which mechanisation has proceeded:

*"In the United States in 1916 only some 30,000 tractors were manufactured. In 1928 it is estimated that some 850,000 were in use. In 1914 the total number (of combined Harvester-Threshers) manufactured in the United States was 270; ten years later, in 1924, it was 5,828; two years later, in 1926, it had more than doubled to 11,760; in another two years, in 1928, it has again doubled to 25,392; and in the next year, in 1929, it had increased once more by very nearly 50 per cent to 36,957 . . . In regard to Australia the 'combine' or its equivalent is now 'universally used'; other harvesting machines, including the 'stripper thresher' and the 'header harvester; are also widely used . . . In Argentina over 30 per cent of the total wheat area is now harvested by means of the 'combine'."*

Before proceeding with the main argument it is interesting to look for a moment at some of the effects of this mechanisation. Four of these are of particular importance. These are the reduction in production costs, the reduced demand for farm labour, the "decasualisation" of harvest labour, and the decline in the number of horses used in farming, which has meant a decrease in the acreage required to provide their food. On these points the Report, already referred to, makes, together with many others, the following statements:—

*"A combined harvester-thresher usually harvests and threshes wheat at a cost of from 3 to 5 cents a bushel while the cost of threshing alone, when the header or binder is*

*used, usually amounts to more than 10 cents per bushel . . . The total working cost of harvesting per acre with different types of machinery is:—*

<i>10-foot combine .....</i>	<i>1.47 dollars per acre</i>
<i>12-foot header .....</i>	<i>3.56 dollars per acre</i>
<i>7-foot binder .....</i>	<i>4.22 dollars per acre</i>

*Canadian official estimates (of costs) show a reduction from 17 cents to 9-1/3 cents per bushel harvested. Figures from Argentina also show a similar result . . .*

*In 1928 the largest Canadian crop ever recorded was estimated to have been harvested by 16,500 fewer men than would have been necessary if some 4,000 combines had not been in operation. In 1929 the considerably smaller crop was harvested with the aid of some 7,500 combines without a single harvest excursion is over . . . In the United States for agriculture as a whole the output per agriculture worker during the decade following the war is estimated to have increased on an average 25 per cent.—during which time, however, more than three million people left the land.*

*Mechanisation in harvesting has 'decasualised' harvest labour where casual labour has been employed; it has smoothed the traditional peak in the labour curve and has thereby greatly reduced labour costs . . . Next to harvest, the time of severest strain on the labour staff is at ploughing and sowing. Here again mechanisation is producing a fundamental change. It is stated that in the United States one person with a large tractor-drawn drill can sow from 70 to 80 acres a day, while one man using at 50 h.p. tractor can plough as much as 18 acres a day. According to the United States Secretary for Agriculture it is possible, when conditions are suitable, to farm as much as 1,600 acres per day, by using improved cultivators instead of ploughs.*

*Technical advances in the methods of wheat production of (these) magnitudes carry with them the implication of a continuous pressure of wheat on the world's markets, as an inevitable accompaniment of the spread of the new technique. The extension of the use of the tractor on the farm and of the motor on the farm and in the towns has led to a reduction of the number of horses, and therefore to a decline in the acreage required to provide their food . . . Between 1918 and 1928 the arable land thus released in the United States amounted to not less than 18 million acres."*

After this digression we can return to the point, already made, that the period preceding the crash was one of the great increase in capacity over the whole field of production. Although consumption of nearly all commodities was expanding, it was not keeping pace with the increase in productive capacity. This disequilibrium, however, was masked in some industries by the shutting down of excess capacity. In others where it was found to be impossible to apply this method and stocks accumulated, recourse was had to schemes of artificial price control. In a memorandum (Stocks of Staple Commodities) published by the Royal Economic Society in October, 1930, it was stated, "When all factors are weighed together—production, consumption and prices—it is now quite clear that there was a definite lack of equilibrium in tin, rubber, sugar, coffee and petroleum: with copper lead, spelter, nitrate and cotton conditions were somewhat less out of line . . . Conditions of free production and marketing existed last summer only in cotton, tin, rubber and tea

out of the twelve commodities (cotton, copper, tin, lead, spelter, rubber, sugar, tea, coffee, petroleum, nitrate)." This memorandum dealt with only twelve commodities, but the list of articles subject to artificial control, of one kind or another, could be extended indefinitely and would include finished products as well as raw materials. Now schemes of artificial control, if they are to enjoy even a temporary success, require financing. A large volume of credit was in fact utilised for the purpose of maintaining, and in some instances raising, the prices of commodities. A few instances must suffice. Between 1925 and 1928 the world's production of coffee doubled, mainly as a consequence of an immense increase in Brazilian production due to better methods of cultivation, a greater use of fertilizers and an extension of planting. During the same period consumption rose by only about 10 per cent. As a consequence world stocks rose to an amount nearly equal to a year's consumption (today stocks are nearly 30 months' consumption). Despite this manifest disequilibrium, the price of coffee did not decline, as Brazil stored the excess supply and so kept it off the market. This she was only able to do because of the large amounts borrowed abroad both for long and short periods. In 1927-28, for example, £13¾ million was borrowed in London for the acknowledged purpose of financing coffee. When finally prices crashed in 1929 a further £17 million was borrowed in order to prevent a complete disaster for the Brazilian producers and those who had provided the periods loans. (On this, see *Studies in the Artificial Control of Raw Materials*, No. 3, by J. W. F. Rowe: Royal Economic Society.)

The position in wheat was very similar. Apart from direct Government assistance to producers in Europe through tariffs, quotas, etc., the formation of the Federal Farm Board in U.S.A. in 1929 and the action of the Canadian and Australian "pools" in keeping supplies off the market were directed to maintaining prices, unjustified by the relationship between supply and demand. At the end of the 1931 crop year the Federal Farm Board was holding 265 million bushels of wheat which it had taken off the market, and it had also made loans to wheat co-operatives. Funds for these operations were obtained from the Treasury. "The increase of holdings (of wheat) in the U.S.A. was largely the result of official efforts to support prices by means of loans to growers and actual buying and boarding by the Government. The larger Canadian stocks were mainly furnished by the big crop of 1928, which the West Growers' Pool refused to sell at competitive prices. There is no doubt that the action of the Pool in this matter received Government approval, and, eventually, Canadian Provincial Governments guaranteed the loans which banks had made to finance the wheat." (*The World's Staples: Wheat*, by G.J.S. Broomhall, published in the *Index*, April, 1931, the official organ of the Svenska Handelsbanken, Stockholm.) Instances of the dependence of price stability on restriction of supply, itself dependent on the provision of finance by banks, governments or other lenders, could be multiplied indefinitely. These two, however, will suffice to show what a crazy structure had been built up prior to 1929, and how it was inevitable that the whole edifice would crash if anything occurred to restrict the supply of credit available for holding up of supplies. When the time came there was no lack of factors capable of toppling everything over. The crash in Wall Street in October, 1929, which led from stock liquidation to forced selling of commodities, and to the calling in of loans by banks and a cessation of new lending, ushered in the deluge; but in any event the game could not have been played much longer. With the increasing disequilibrium between production and consumption of all kinds of commodities, it was inevitable that sooner or later it would become

impossible to obtain finance for the stock accumulated, or to enable to sufficiently large capacity to be shut down.

We have now got so far behind the fall in prices as to be able to trace it to the persistent disequilibrium between production and consumption that resulted from the increase in the world's productive capacity. This has already been affirmed in several quarters. Thus Prof. Bonn writes:—

*"The crisis was ultimately due to the misuse of capital. The savings which productive surplus had yielded, or was expected to yield, had been spent in the construction of newer productive plants of constantly increasing capacity in the hope that the consumers on whose behalf this vast apparatus was to operate would grow up automatically."*

To pass from this stage to the statement that the crisis was the result of over-production is not to solve the problem, but merely restate it. The question at once arises, "Why was there over-production?"

In the first place it is clear that over-production, in the absolute sense, never has existed and is hardly likely to exist. At no stage in history, and certainly at no time in recent years, has the supply of goods and services been more than sufficient to satisfy the needs of the people of the world. No one would venture to assert that there is, or has been, over-production relative to needs in view of the fact that in this country alone, even during the years of prosperity, unemployment for no length of time fell below a million. To-day world unemployment is over twenty million, and it is estimated that, including dependants, "over 40,000,000 persons are now living below the minimum standard of health" in America alone (*Manchester Guardian*, March 17th, 1932). But there is still over-production. It is patent that the term can only have a relative application. By over-production is meant production in excess of the demands of purchasers. This leads back to the purpose of production to-day. Under capitalism, with the means of production privately owned and controlled, the purpose of production is the sale of goods at a profit. The making of profits is the aim and object of all production, not the supplying of wants, although of course a producer, having to sell his goods before he can realise his profit, will endeavour to produce commodities that satisfy a want. Not only is production organised for sale at a profit, but it is carried on by the exploitation of legally free workers, working for wages. The consumption of the workers is limited to the amount they receive in wages. This is only a part of the amount produced by their labour, as otherwise there would be no surplus available to constitute the profits of the capitalists. Out of the profits the capitalist takes the amount required for his personal needs. The rest is re-invested in further means of production. Thus fresh means of production are constantly being provided that turn out goods far in excess of the effective demand for them. This is the inherent contradiction in the capitalist method of production which cannot be overcome while that method prevails. As at this moment there must always be a piling up of commodities for which profitable markets, cannot be found, owing to the workers being denied access to the production of their labour. And when such accumulations occur, the only way out of the difficulty under Capitalism, short of a destruction of stocks, is an economic crisis, which by causing a slowing up of future production will allow stocks to be reduced, and so prepare the way for another burst of prosperity, which in turn will dissolve into a crisis. This painful corrective of the

defects of Capitalism mans for the workers unemployment, reduced standards of living, in many instances starvation, acute want and misery. And while Capitalism endures this must always be their lot. Only when, by using their votes to gain political power, they abolish the capitalistic system, and substitute for its anarchy a system of production based, not on profit-making, but on the satisfaction of needs will they benefit materially instead of suffering from man's increased powers of production. Only then will economic crises cease to occur.

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