THE CITIZEN'S LIBRARY. ECONOMIC CRISES

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THE CITIZEN'S LIBRARY

OF

ECONOMICS, POLITICS, AND SOCIOLOGY

EDITED BY

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CHAPTER I

INTRODUCTION

THE growth and differentiation of industrial institutions which have taken place within the present century have brought many new and perplexing problems to the man of affairs and the student of economics. None of these problems takes a firmer hold upon the fundamentals of economic society than does that of crises, and few of them receive more attention or create more controversy.

The crisis is practically of nineteenth-century origin, and it is an acute malady to which business appears to be increasingly subject. These crises are periodically recurring convulsions which paralyze the course of trade, give rise to violent fluctuations of values, and leave behind them crippled industries, bankrupt or suspicious capitalists, and impoverished laborers as the result of their visits.

It is often desirable to begin a treatise with a definition. Descriptions and definitions, however, shade off almost imperceptibly into one another, and what may be called a descriptive definition is sometimes best suited to the purpose. Two such descriptions of an industrial cycle containing a crisis are here offered. The first, taken from the Tracts of Lord Overstone, is as follows: "State of quiescence, improvement, growing confidence, prosperity, excitement, overtrading, convulsions, pressure, stagnation, distress, ending again in quiescence."[1] A somewhat more extended description from the pen of Frederick Engels is as follows: "The whole industrial and commercial world, production and exchange, among all civilized peoples and their more or less barbaric hangers-on, are thrown out of joint about once every ten years.

[1] The symptoms of a crisis are thus catalogued by Max Wirth: "1. Abnormal activity in floating enterprises, and boldness in speculation. 2. Unusual activity in stock-jobbing: viz. the desire to found stock corporations in order to use all possible means to force the stocks rapidly to a high figure, and then sell out at a profit, leaving the corporation to those in whose hands the stock, like an unlucky card, is found at last. A rule in such cases is that a good business is operated by one's self or a few companions, but a bad one is formed into a stock company. 3. Unusual excitement and gullibility of the public caused by the report of large profits. 4. Rapid increase of luxury. 5. Sharp rise of the price of necessaries, articles of luxury, raw materials, and provisions. 6. Rise in the price of real estate. 7. Strong demand for labor, and rise in wages. 8. Unusual expansion of credit and credit instrumentalities in consequence of which a rapid and unusual *increase in discount*. 9. Large demand for cash, and, in consequence of this demand, a *decline in stocks*." — "Handbuch des Bankwesens," 3 Aufl., p. 62. The same is also contained in the "Geschichte der Handelskrisen," by Max Wirth.