GOOD AND BAD TRADE; AN INQUIRY INTO THE CAUSES OF TRADE FLUCTUATIONS

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I

INTRODUCTORY

In the last hundred years we have learnt to produce wealth on a great scale. Our command of the necessaries, comforts, and luxuries of life, so far as the material conditions of production are concerned, seems almost boundless. But in the same period we have become acutely aware of certain imperfections in the distribution of all this wealth.

The general principle by which the distribution is at present governed is that those only are entitled to share in the accruing wealth of society who assist in the production of that wealth, whether through their personal services or by permitting the use of land or capital which is in their control. Whether this principle would, if it worked smoothly, be a good or a bad one is a question with which I do not intend to deal here. The principle does, in fact, work imperfectly. For many people who possess no accumulated property find themselves from time to time without the opportunity of assisting through their personal services in the production of wealth, even though they would be perfectly competent to do so if the opportunity offered. No one can live without a share of wealth, and the community is faced with the alternatives of either supporting these people on some other principle than that of payment for services rendered, or letting them want.

The purpose of the principle of payment for services rendered is to put pressure upon all competent members of the community to work (except, of course, those who possess accumulated property). But if a man cannot find the opportunity to work, the pressure is useless; and at the same time his faculties are being wasted so long as he remains idle. There are many contributory causes of unemployment; unforeseen changes in the demand for a commodity, or in the places or methods of production; imperfections in the organisation of industry, in the communication between would-be employers and would-be employed, in the training and selection of recruits for the skilled trades; jealousy and antagonism between skilled and unskilled labourers, between skilled labourers of different trades, between different branches of the same trade. But whatever the relative importance of these causes may be there is one dominating all-pervading fact which appears to require separate consideration, and the special importance of which has been admitted by most of the economists and politicians who have studied the subject. Trade as a whole is subject to a well-marked though not quite regular wave motion, with a period from crest to crest or from trough to trough, which varies from four or five to about ten years. In the trough of the wave business is subject to a kind of paralysis. It becomes abnormally difficult to sell goods, and manufacturers find themselves compelled to reduce their output and consequently to turn adrift some of their workmen. At such times all the various causes of unemployment appear to be working with more severity than usual. On the other hand, on the crest of the wave, everything seems to prosper. Business is profitable; manufacturers are overwhelmed with orders; practically every competent workman can get work. These fluctuations of trade are important on many grounds, but it is on account of their bearing upon the unemployed problem that an explanation of their causes and true character is most urgently called for.

My present purpose is to examine certain elements in the modern economic organisation of the world, which appear to be intimately connected with the fluctuations. I shall not attempt to work back from a precise statistical analysis of the fluctuations which the world has experienced to the causes of all the phenomena disclosed by such analysis. But I shall endeavour to show what the effects of certain assumed economic causes would be, and it will, I think, be found that these calculated effects correspond very closely with the observed features of the fluctuations.

The general result up to which I hope to work is that the fluctuations are due to disturbances in the available stock of "money"—the term "money" being taken to cover every species of purchasing power available for immediate use, both legal tender money and credit money, whether in the form of coin, notes, or deposits at banks. The banking and currency systems of the world are so intricate and various, and apparently small differences acquire so much importance as the subject develops, that it will be necessary to begin with abstract and artificially simplified assumptions, and to take into account one by one those complexities which