

ECONOMICS OF DEPRESSION

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THE science of economics is often reproached with having deviated too far from reality, and having failed in this manner during the present Depression. In spite of the intensive study of the cyclical movement it had failed, we are told, to forecast the catastrophe, and has not been able to show a suitable way out of the crisis. The fact that one hears this reproach repeatedly does not justify it. It is based on a fundamental misunderstanding of the very essence of economics, and indeed of science itself. It seeks for prophecies, not for diagnosis, and it requests the prescription of a patent medicine for all diseases. The charge that economics has deviated from reality surely is not justified. The time has long passed when only research in theory and economic history of bygone ages was the topic of interest. Discussion of present-day problems takes up a great part, sometimes too great a part, of modern literature on economics.

However, even in the study of present-day problems, economics can contribute only from the point of view of a science. First of all, it has to point out the facts, which is truly no simple task, when one takes into consideration the rapidity of modern economic developments, and the subjective manner in which reports are written on economic matters. The economist must classify these facts, investigate their internal cohesion and causal connection; hence he must develop rules and working principles which lie behind the passing appearances, and demand permanent validity. He is in no better position to forecast the future developments of economics than the historian to forecast the course of history. It is true that there are economic laws which sometimes have the character of the laws of nature, but only rarely are they allowed to work without being disturbed, especially in modern times. Above all, the economic sphere is subject to political influences which disturb or even paralyze the working of economic laws. To observe these influences, and to recognize their effects, requires just as much political and historical knowledge as economic wisdom.

These are the qualities which characterize the whole of Mr. Cole's book, *The Intelligent Man's Guide Through World Chaos*.¹ Let not the reader be disturbed by the rather snobbish title he has

chosen. It means that the author, following Mr. Bernard Shaw, writes not for the economic expert, but for the educated layman who desires to form his own opinions regarding economic matters and not to rely solely on newspaper editorials. The book is popular in the best sense of the word. Unlike bad specimens of that kind, it does not try to simplify the problems, but explains them in all their difficulty, though in simple and plain language, with great clearness and avoiding scientific terminology. One will look in vain for mathematical formulae used in such abundance by some modern economists that their writings resemble a text-book on geometry. But is that, after all, such a misfortune? Instead, there are sound and lucid comments on the problems which to-day confront us, whether they are gold standard or inflation, free trade or planned economy. The book is written very systematically. It deals with pre-war economics and its leading tendencies, with the Depression in all its stages of development, and with the possible remedies. A special chapter is devoted to Russia. It is a pity, I think, that the author in his book, which was completed in 1933, had not been able to comment on the New Deal.

What results the tendencies explained to us by Cole had upon one of the world's most important economic areas, we learn from another new book, *The Problem of the Pacific*?² It is a picture illuminating and depressing at the same time. Is it generally known that the imports of the States surrounding the Pacific have from 1929 to 1932 gone down from 11,019 to 3,960, the exports from 10,406 to 3,686 gold dollars? Does one realize how many ruined people, what an amount of goods produced only to be abandoned, looms behind these figures? All the states bordering the Pacific had to suffer from that catastrophe, Japan not being excluded, in spite of the expansion of her foreign trade. Should not therefore everything be done by close co-operation of all concerned to speed the process of recovery and to make impossible for the future the repetition of so terrible a Depression? These are some of the problems dealt with at the fifth conference of the Institute of Pacific Relations held in Banff in August 1933, of which the report of the Institute gives an excellent description. All states surrounding the Pacific—with the exception of South America and Russia—were represented by well known personalities of the political and economic sphere. Since Russia meanwhile has joined the League of Nations, it is expected that she also will send a representative to the next conference.

2. *Problems of the Pacific* 1933. Economic Conflict and Control Proceedings of the Fifth Conference of the Institute of Pacific Relations, Banff, Canada, 14-26 August, 1933. Oxford University Press, London, 1934.

There was a thorough discussion on the differences in the social and economic structure of the countries competing with each other, on the differences in standards of living and in labour conditions, on the fluctuations of currency and on the effects of all these factors upon international political and economic relations. At the same time, great care was taken to understand the differences growing out of the peculiar internal situation of the states concerned. In that way the impressions gained about Japan's expansion and about China's reconstruction programme were quite different from those given by the press. There was, of course, also a discussion on the Ottawa Agreements as a co-operative attempt at recovery, and on the U. S. A. recovery programme then still is its first phase. In a comprehensive appendix to the report nine documents—some of them most valuable—are published, which had been prepared for the conference by various national committees. We are informed about control of industry in Japan (by the Tokyo Institute for Political and Economic Relations), and about Economic Consequences of Recent Events in Manchuria (by the Royal Institute of International Affairs, London), about Agrarian Problems and Rural Industries in China, about Population and Land Utilization in the Philippines, and some other most interesting topics. The last document contains a Security Pact for the Pacific Area, drafted by two professors of the Imperial University in Tokyo.

In spite of all the controversies embraced, the report on the Banff Conference is felt as a unit. At least there is apparent a genuine effort of all those attending the conference to find a way for a synthesis. That can not be said in the same way of the second study conference on *The State and Economic Life*, organized by The International Institute for Intellectual Cooperation, held in London in the spring of 1933. All the problems of the institutions set up by the League of Nations are once more apparent. Either the doctrines opposed to each other are emphasized by parties which are irreconcilable, and agreements are reached in terms so general that they are not of great value, or problems are discussed on which there is hardly a difference of opinion. The recent activities of the International Labor Office prove the truth of this sufficiently. Reading the very well edited report³ of the conference, one feels that the discussions of the international gathering of the university teachers—there were also a few outsiders—met with similar difficulties. That is not surprising. For in many

3. *The State and Economic Life*. Addresses and Reports at the Fifth International Studies Conference, London, 1933. League of Nations International Institute for Intellectual Cooperations. Paris, 1934.

questions a common platform was missing, without which it was hardly possible for the delegates to understand each other. How, for instance, could one expect a reconciliation between the English-American and German-Italian ways of thinking on the question of Organization and Representation of Labor? Nevertheless, and perhaps on account of these controversies, the book is most informing and interesting. That is chiefly due to the personalities taking part in the conference, of whom I may mention a few: Beahan, Coatmen, Manning, Tuynbec, Richardson and Tinnern for Great Britain, H. A. Innis for Canada, Beckerath, Bergstbaesser and Brinskmann for Germany, E. F. Guy, J. M. Clarke and J. Viner for the United States, Raffard and Wolfers for Geneva, not to forget Sir Arthur Salter who acted as chairman. If these and others of similar standing discuss questions of international trade and finance or of state intervention in private economic enterprise, the reader will be sure to find a very fine explanation of the problems and some excellent formulations.

In the London conference Professor H. A. Innis from Toronto repeatedly referred to the Canadian wheat problem. This is also the subject of a brief study published in German, and in a semi-official bulletin by Louis Hamilton and R. Freund.⁴ The authors describe the development of wheat-growing in Canada, the aims for a better distribution of supply and stabilization of prices by organizing the market, and they add valuable statistics and diagrams. The chapters dealing with the general situation are written by Louis Hamilton, Lecturer on English at an institute of Berlin University. Though he has contributed to many Canadian periodicals and travelled a good deal here, he is not known as well in this country as he deserves to be. There is hardly anybody who has done so much to make Canada known and understood in Germany as Hamilton. Most of his numerous publications have been devoted to Canada and her problems. Some of the best known are his "Canada" (A. Perthes Gotha 1921), "Canada, Land und Leute," a wonderful collection of Canadian photos, published in the famous Wasmuth series "Orbis Terrarum" (1926) and "Deutschland und Canada" (1928), a book written to improve German-Canadian relations.

4. L. Hamilton und R. Freund: Weizen-wirtschaft und Agrarkrise in Westkanada. Berichte über Landwirtschaft. Band XIX. Heft 3. Berlin 1934.