JUST ISSUED

A NEGLECTED POINT

IN CONNECTION WITH CRISES

By N. JOHANNSEN

200 Pages, with Colored "Investment Chart." Price, $1.50
Published by THE BANKERS PUBLISHING CO., NEW YORK.

SYNOPSIS

"Lack of demand" is the characteristic feature of crises and depressions, especially of the latter; lack of demand for working forces as well as for commodities.

Most people attribute this lack of demand to a lack of confidence. They argue: "Go on and produce, the demand will follow." They overlook that there is an element in our economic system which constantly tends to make the demand fall short of the supply—an element of disturbance which cannot be set aside by mere confidence.

The author traces this lack of demand to two distinct sources: first, the primary cause of depressions (so far unknown), which, however, accounts for only a small share of the "lack of demand"; second, a peculiar multiplication of this primary cause, brought about by the reaction of one trade upon another. If a thousand men in the iron line are thrown out of employment and lose income at the rate of $15,000 per annum, this will reduce their purchasing power accordingly, and this, again, will react upon those trades which supplied the commodities they used to buy. These trades will likewise suffer. And from them the harmful action will spread to still other groups, and from these again to others, so the lack of demand brought about by the primary cause may be increased fivefold, owing to this Multiplying Principle.

The working of the latter is not difficult to understand. But where must we look for the primary cause, the real source of the evil? Some economists have tried to connect it with the saving process. If a man earns $1,000 and spends only $900, he will create a shortage of demand to the extent of $100, and unless this shortage were counteracted, we would here have a clear case showing how the "lack of demand" is introduced into our economic system as a positive and definite element.

Our economists hold that such counteraction takes place whenever the savings funds come to be invested. In the course of the investment they are finally expended for goods or commodities. Thus, if the said amount of $100 be applied towards building a house and be paid out in the shape of wages to the builders, the latter will expend the money in buying the commodities they need. This constitutes a demand to the extent of $100; not only for goods, but also for such working forces as produce the goods, or, as it were, reproduce them. This demand fully compensates for the original shortage of demand caused by the saving activity—a process which can easily be traced.

But will such compensation also take place where the savings funds find no opportunities to be invested in enterprise and new constructions? At times of depression such opportunities become scarce and the funds have to follow a different mode of investment which is hard to trace. Our economists maintain, that even then a compensation is effected. They point to a very peculiar phenomenon which can always be observed at such times, namely: the savings funds which constantly flow into the money market do not accumulate there (except to a small extent) but find their way back into the channels of production and trade. They cannot get back into these channels without buying goods or commodities in some shape or other. If they do, they create a demand, not only for goods, but also for working forces. The demand thus

created by the expenditure of the said $100 will be fully as large as the original shortage of demand ($100) caused by the saving activity.

From these facts, undeniable as they are, our economists have drawn the conclusion that the saving activity cannot result in a real shortage of the demand, provided the savings funds be promptly invested. This conclusion has been universally accepted as correct and has practically become an axiom in modern economics. Still, it is not reliable.

The conclusion loses sight of a certain eventuality. In ordinary business each participant (workingman, trader, capitalist, &c.) furnishes both supply and demand. If A supplies goods or services to the community worth $100 (or draws income from the community in any shape), he subsequently will buy a hundred dollars' worth of goods *from* the community; either he or his family. Just so with B. Ordinarily, therefore, two sets of working forces, A and B, will furnish two supplies and two demands. At times of depression, however, we often find only one supply and one demand between the two sets of working forces, some of the individuals producing without consuming—others consuming without producing, their services being left uncalled for. This leaves part of the working forces without employment and will disturb the equilibrium between the demand for working forces and the supply thereof.

Such unemployment always occurs whenever savings funds are invested in that peculiar manner which characterizes times of depression; the saving process then assuming its "Impairing Form." Exactly how the investment takes place at such times has never been explained by our economists, the subject having escaped their attention. It will be revealed in this present treatise. The manner of investment once being known, it presently becomes clear where that "lack of demand" originates and how it enters our economic system as a definite and measurable element. It will also be shown that, though the savings and surplus earnings will finally be turned into goods and commodities, and though this will give employment to working forces, yet unemployment is bound to intervene before this result is reached; unemployment as well as "lack of demand," both due to the saving process.

Once we comprehend the dual nature of the saving process—stimulating business at one time and depressing it at another—we shall not only get a clearer view of the causes underlying depressions but will also know in which direction to look for the remedy.

131/31a part 1