WHAT PRICE PROFITS?

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THE sand-crab is a funny little creature that is found on the shore of the ocean. It lives far down in the sand and each day when the tide is out it expends much labor digging a passageway to the surface where it finds its food. Each day when the tide comes in it is buried alive as the waters cave in the passageway. It must dig itself free again when the tide goes out. Poor sand-crab! It has no control over the tides and, alas, it has not the intelligence to build its hole where the tides reach not. That is why it must ever go on spending its substance in digging itself out; that is why it will ever remain the brittle, empty-shelled creature it is.

But why waste our sympathy on sand-crabs when there is a vastly more pitiable creature in our midst who commands our charity as well as our sympathy? The poor business man is in worse case than the sand-crab. He works by day and by night; he brings to his task all his physical and mental resources; he calculates, he judges, he schemes, he sacrifices, he worries, perhaps he compromises his honor and his soul. To build up a fortune! What kind of fortune? One that will ensure him peace, happiness and rest forever, or even for the remainder of his natural life? Very probably, no! *As economic institutions are at present constituted,* the next tide of depression may obliterate that fortune, as the ocean tide obliterated the sand-crab's work. If the first tide does not wash away the fortune, chances are the next will. In any event, let the business man pray that failure may not overtake him in his declining years when he is worn out with the struggle and has neither the energy nor the will to start again from the bottom.

The pioneer predecessors of modern business men were Frankensteins. They created a veritable monster, selfish individualism, which crushed them and periodically crushes their descendants. This monster is today roaming the world, fattening on its victims. It does not kill its victim right off, it plays with him for a time. It sets a trap for him and uses a little sugar for bait. In business parlance the trap is called "free competition," and the bait "unlimited profits." The victim walks boldly in and consumes the sugar. Complacent, he thinks he'll come back for more another day. Alas, when he turns to go he finds there are thousands of other victims in the trap. The opening which led in was large, but the opening which leads out is very small. If they wait to go out one by one, some will starve to death before their turn comes. So they all fight to gain the opening, each one for himself. The carnage is frightful, the victims many, the survivors few. In business, the whole process is called "the business cycle." Let us see how it works.

The economic phenomenon known as the business cycle is "a rhythmical movement of business which is most prominently evidenced by a rapid increase of the price level, followed by a decline in the price level, then a slow upward trend."[1]

The history of past business cycles is the history of fluctuations in the price level of commodities. The price level is the control lever of business, for it determines the possibility and the margin of profits. The four phases into which business cycles are divided for convenience of analysis follow regularly upon fluctuations in the price level. At first we have *prosperity*, during which prices of commodities steadily climb, profits increase, production is stimulated, wages rise and employment becomes general, bank and commercial credit is expanded; secondly, *recession*, which is initiated by a fall in prices, then followed by a precipitous decline as credit contraction forces liquidation; thirdly, *depression*, during which liquidation runs its course, the low level of prices is reached, curtailed operations are conducted at a loss, unemployment is widespread and bankruptcies are common; and finally, *recovery*, after inventories have become depleted and consumers are forced to purchase goods for current needs, prices slowly rise and prospects for future profits brighten, and the cycle once more begins its accustomed round and regular sequence of phase after phase.

This description of the business cycle is necessarily brief and concise. It omits many of the details. Particularly does it omit to describe the consequences. It tells nought of the extravagance and waste of the prosperity phase; it saves the reader the heart-rending details of the depression phase—the physical suffering, the mental torture, the indigence and the hopelessness of the victims. These latter have a perfect right to ask: "Is all this necessary? Is it inevitable?" And the answer is: NO. Business cycles can be largely

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[1] Arthur B. Adams, *Economics of Business Cycles.* McGraw Hill Book Co., Inc., N. Y., 1925, page 29.

ironed out if business men would adopt the social outook as opposed to the mad race for individual profit.

Business cycles are historical. They are not even an ancient phenomena. They began to appear perhaps two hundred years ago. Previous to the 18th Century there were no business cycles. True, there were business crises, alternate good and bad times but these were due to factors extrinsic to the economic organization itself. They were due to plagues, wars, famines and the machinations of kings and governments. These factors still exercise an influence upon business fluctuations but only a secondary influence. The most important causes come from within the business structure itself.

In early days people lived by a simple household economy. The family produced what it needed for itself. With the extended use of money, the handicraft economy with its specialization of labor came into use. Finally, this evolved into a full-fledged capitalistic system under the stimuli of increased international trade following the Crusades, the discovery of the New World with its stores of treasure to swell business capital and with its markets for the increased products of industry, and the enlargement of the fund of working capital through banking credit. At this point in our economic development business cycles appear. Professor Mitchell, who has made an exhaustive and critical study of the subject, writes: "until a large part of a population is living by getting and spending money incomes, producing wares on a considerable scale for wide markets, using credit devices, organizing in business enterprises with relatively few employers and many employees, the economic fluctuations which occur do not have the characteristics of business cycles."[2]

Unfortunately for the world, the environment in which capitalism was born and developed was not conducive to happy results. In the first place, a large section of the world was in revolt against the Catholic Church and Her salutary moral code. Nationalism was replacing the internationalism of the ancient Church. Current philosophy translated its naturalism into current economic theory. The Physiocrats in France, Adam Smith and the Classical School in England were devotees of the doctrine of laissez-faire or free competition. According to this naive doctrine, the common welfare is best preserved when each individual is allowed to pursue, unfettered, his own individual welfare. Its concomitant in political philosophy is the theory that the sole function of the state is the enforcement of contracts and the protection of private property.

[2] Wesley C. Mitchell, *Business Cycles*. National Bureau of Economic Research, Inc., New York, 1930, page 75.

The fruit of these doctrines is rampant Individualism which Popes Leo and Pius have so thoroughly castigated. These are the theories upon which our economic and political life have been constructed. They have allowed full play to the vices of avarice and greed; they are responsible for most of the economic injustice and lack of charity of the world. In the milieu of these doctrines we have the extremes of vast wealth and dire poverty; we have the heights of prosperity and the depths of depression.

Under the patronage of Individualism, profits became the mainspring of all economic activity. No considerations of common welfare are allowed to enter into the calculations of business men. It would be perfectly good Individualism for a man to corner the world's food supply and wring the last cent out of every last man as the price of his daily bread.

The part of profits in economic organization is all-important. The prospect of future profits causes the wheels of industry to grind fast; there is general employment with good wages; everybody acquires a taste for luxury; waste, extravagance and inefficiency result. But the maintenance of this high speed is conditioned upon profits and the limits of credit expansibility. Unfortunately, both credit and profits are limited—credit, by the reserves upon which it is based; profits, by the conditions which their acquirement begets, and by their very nature, for there is grave doubt that universal profits can be sustained indefinitely.

Thus the outlook for profits eventually becomes barren. The same "each-one-for-himself" spirit which characterized the race for profits now manifests itself in the race to avoid losses. Business men start unloading their excess merchandise and the process is initiated which carries down to destruction the whole, intricate, highly-geared profit structure. Then is enacted before our eyes an amazing drama. We see in the same glance men starving—and bursting granaries; men ragged—and overstocked clothing stores; men eager for work—and "No Help Wanted" signs; men standing in the sunshine, amidst the perfume of flowers and the song of birds, within earshot of dearly-loved wife and children—and a finger on the trigger of a revolver pressed to a throbbing head. What's wrong with that picture?

More and more delicate and finely-balanced has the mechanism become which controls the equilibrium of the economic structure. Deadly competition for profits has run out of business the small dealer and even the individual corporation. Larger and larger have the units of organization become—holding companies and great trusts, gathering under their impersonal control the very necessities of life. The larger these units become, the costlier are their mistakes of judgment, the heavier is their fall, the more victims are carried down with them. This fact, in conjunction with the fact of the increasing incidence of business crises in late years, makes imperative an enlightened interest in the solution of the problem.

In view of the increasing economic inter-dependence of the entire world, it is well to point out that prosperity is not the "normal" condition of world affairs. Dr. Willard Thorp of the National Bureau of Economic Research has made exhaustive studies of this feature of the problem. He concludes that the relative duration of the prosperity phase of the business cycle in seventeen commercial countries from 1890 to 1925 averaged approximately 39.3% of the total time. In other words, less than four out of every ten years could be designated prosperous.[3]

Business organization is like a complex, delicately-adjusted machine. Its normal operation is conditioned upon the harmonious interplay of its parts. The fact that it does get out of order has occasioned the expenditure of much expert labor in an effort to discover the particular part which first wears out and causes the smash. Learned books have been written by reputable economists attributing primary causality to practically every individual part of the machine. We have theories centering around weather cycles, emotional aberrations of business men, inequality in the distribution of income, overproduction, underconsumption, limitations of credit, and so on ad infinitum. All these factors are important in the discussion of the cause of business cycles. However, the writer is firmly of the opinion that, fundamentally, the fault lies not so much with the machine as with the operator. If a man took an automobile out into traffic, opened up the throttle to the last notch and kept it there, ran into a tight situation, lost his head and jammed on the brakes only at the moment of contact with a stone wall, the coroner might render a verdict of suicide or of death from criminal negligence but he would hardly report death as accidental and due to defective brakes.

There are many things which business men can do to iron out the fluctuations which characterize business cycles. First and foremost, they can adopt a social and mutually-helpful attitude; they can share the profits more equitably with employees; they can be satisfied with a reasonable rate of profits; they can organize in industrial groups and share the benefits of their united influence; they can prevent overinvestment in capital goods; they can cooperate within their group in planning production to approximate consumption; they can

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[3] Cfr. Wesley C. Mitchell, *Business Cycles,* p. 408.

act together to prevent dumping inventories upon a flooded market.

In truth business men have been joy-riding. They have been hogging the road. They have been gambling with death. They know, or should know, before they take the business machine out of the garage that serious accidents are virtually inevitable, considering the way they drive. They are guilty of injustice when they contravene the rights of others. They menace the health and jeopardize the life of every other member of the community. It is time to call a halt!

Perhaps it isn't necessary at this time to take away their drivers' license. Perhaps a suspended sentence and a lecture will suffice. Perhaps they will see the light if the error of their way is pointed out, if they are shown that men have social obligations while they enjoy the advantages of social life, that the operation of the business car at a moderate speed will reduce the probability of accident, that the fair-sharing of the road with the rest of traffic will avoid head-on collisions. These things the community has a right to demand of the business man under penalty of punishment. As for the rest, accidents will occur which cannot be controlled by the foresight of man —"acts of God" and those resulting from hidden defects in the machine itself. For these they will be held blameless.

Forlorn hope! Arguments such as these which appeal to the reason or depend upon police power for their sanction are not permanently effective. Human vices and human emotions have always proved stronger than the restraining arm of the law. There is but one sanction stronger than these. It offers the one remedy for the disease—a remedy which, if it cannot eliminate entirely the incidence of business cycles, at least can mitigate their baneful effects. It is the remedy proposed by the moral teacher of mankind, the Pope of Rome. Here are his words of wisdom; they are prophetic: "Economic life must be inspired by Christian principles. For this pitiable ruin of souls, which if it continue, will frustrate all efforts to reform society, there can be no other remedy than a frank and sincere return to the teaching of the Gospel. Men must observe anew the precepts of Him Who alone has the words of eternal life, words which, even though Heaven and earth be changed, shall not pass away.

"This is the perfect order which the Church preaches with intense earnestness, and which right reason demands: which places God as the first and supreme end of all created activity, and regards all created goods as mere instruments under God, to be used only in so far as they help towards the attainment of our supreme end."[4]

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[4] Pope Pius XI, Encyclical *"Quadragesimo Anno."* N. C. W. C. edition, page 43.