THE TRADE CYCLE

Business Cycles and National Income, by Alvin H. Hansen. *New York: Norton. $6.75*

The interpretation of the trade cycle—the recurrence of periods of feverishly booming business invariably followed by periods of depression—as first developed by the British Currency School and later perfected by modern economics runs this way:

There prevails on the part of public opinion a reluctance to look upon interest as a phenomenon uniquely dependent upon the general state of economic conditions. People are loath to comprehend that the discount of future goods as against present goods is not a specific characteristic of the market economy, but an inexorable category of human valuation which would direct the decisions of the planning board of a socialist system no less than it determines the conduct of every individual in a capitalistic system. People believe that artificially lowering the rate of interest by expansion of bank credit is a blessing for everybody except idle capitalists. They fail to realize that it is impossible to substitute additional bank credit for non-existing capital goods and that therefore an artificially created boom must collapse and turn into a slump. They hail the illusory prosperity which such credit expansion in its initial stages brings about, and are bigoted enough not to recognize that the following depression is the inevitable consequence of the preceding orgy of speculation.

Against this theory, which is commonly called the monetary or circulation credit theory of the business cycle, there have never been raised any tenable objections. Even the report of the League of Nations "On Prosperity and Depression," prepared by Professor Haberler, admits that an author who wants to explain the business cycle in a different way "often tacitly assumes—or ought logically to assume—the willingness and ability of the banking system to expand credit on existing terms" (p. 7 of the new edition, 1939). Nonetheless, governments stubbornly cling to the policy of artificially lowering interest rates by credit expansion. Scores of authors try to defend this policy by producing spurious explanations of the trade cycle and by passing over in silence the monetary theory. As they see it, the recurrence of economic crises is inherent in the very nature of the unhampered market economy.

The originator of this fallacy was Karl Marx. It is one of the main dogmas of his teachings that the periodical return of commercial crises is an inherent feature of the "anarchy of production" under capitalism. Marx made various lame and contradictory attempts to prove his dogma; even Marxian authors admit that these ventures were utterly futile. Yet Marx and Engels and all their disciples down to Stalin and his henchmen have built their hopes upon the expectation that the crises will return again and again, each time more threateningly, and will finally induce people to abolish economic freedom and establish socialism. Hosts of pseudo-economists, while emphatically protesting their anti-communism, have unreservedly adopted this fundamental thesis of the Marxian creed. They are intent upon demonstrating its correctness, and design programs for what they call a "positive counter-cyclical policy." In effect all these programs aim at the substitution of all-round planning by the government for private initiative. In order to remedy the disastrous consequences of the government's policies of credit expansion and inflation, they suggest more and more government interference until any trace of the individual's freedom will have disappeared.

Professor Hansen's book is the latest product of this daily swelling literature. It does not add any new idea to those advanced by its predecessors. It merely repeats what has been said again and again and has been irrefutably exploded a hundred times. It tries to revive all the specters of confused economic thinking such as general overproduction, general overinvestment, acceleration principle and so on. It presents an inadequate account of the opinions of previous authors, omitting the most important contributions. It includes ample historical and statistical material, badly assembled and interpreted.

Professor Hansen's endeavors to discredit those who contend that the only efficient means to prevent the reappearance of crises is to abstain from any kind of credit expansion and inflation, would not deserve any special attention if they were not symptomatic of the prevailing tendency in academic and official circles. The views held and propagated by these circles are even more fateful than the policies they try to vindicate.

For the methods of reckless inflation and credit expansion engineered by the present Administration will inevitably, sooner or later, result in an economic debacle. Then people, indoctrinated by the official tenets, will argue: "The last desperate attempts to salvage capitalism, the New Deal and the Fair Deal, have entirely failed. It is obvious that capitalism must lead to a depression. No other remedy is left than to adopt full socialism." The teachings handed down in most of our schools as well as the passionate utterances of the Communists on each side of the iron curtain will not allow of any other interpretation.

As against all this talk it is imperative to instruct people in time that the trade cycle is not a phenomenon inherent in the unhampered operation of the market economy, but, on the contrary, the inevitable effect of manipulation of the money market. People must learn that the only means to avoid the recurrence of economic catastrophes is to let the market—and not the government—determine interest rates. There is but one pattern of positive counter-cyclical policies, viz., *not* to increase the quantity of money in circulation and of bank deposits subject to check. Deficit spending by borrowing from the commercial banks is the surest way toward economic disaster.

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