

the fact that the estimates mean a complete reversal of the trend; that is, a change in "direction." Such comparison supplements the impression gained through the usual comparison necessarily made upon an absolute basis, that is, of the actual volumes against the estimated volumes. Often it is possible to throw into relief the hazard behind the estimate, if we bring out the contemplated extent of change from some previous actual peak level, particularly if this previous actual peak level was the most recent level known at the time the estimate was hazarded. Even this sort of comparison is, perhaps, inadequate to tell the whole story. In the elevation of the effectiveness of "forecasting methods" as against "no forecasting methods," the true comparison should be of the actual results obtained against the results that "might have been," had judgment been affected only by "boom" propaganda. Particularly at the very peak point of the business cycle just prior to a decline, there seldom fails to be generated a large store of optimism concerning the future.

In such a light, then, the final tabulation, Figure II, shows, as adequately as may be pictured by a table, some performances against estimates made at the peak of our business cycle. The estimates, of course, fixed in a record the anticipated or desirable effect of our prompt attempt at certain and adequate liquidation, while there was yet fair chance to do the liquidating. In the table there is first pictured our estimates concerning the rate of incoming business and then the net effect upon all related assets. To conserve the assets it was essential, of course, to control all the others factors in terms of the anticipated declining demand.

From the table given there is omitted any reference to the combined works' finished stock inventories. December 31 inventory marks were established, but as the period progressed and as December 31st approached, it became more and more obvious that in our cycle we were to have a "secondary peak" in the first quarter of 1924. Our December estimate of the extent of this secondary peak in terms of recovery over the lower levels of the third quarter of 1923 is shown in the table. In consequence, it was undesirable to insist upon low finished stock inventory. Accordingly production was directed toward producing an adequate finished stock inventory upon a revised schedule, although it was still considered desirable to maintain the fund of work in process at the originally established conservative levels.

In conclusion it is to the point to recall the quoted statement that "there isn't a single business in the world to which the theory can be applied The cycle theory is applicable only to the total of business conditions in general." Today, we, too, would be indorsing this statement if the raw summary figures of the particular business were to be compared indiscriminately with general average cycle conditions of the total of all external business. But we commit ourselves to the proposition that there is a definite aid to control attainable through analysis of business cycles, if an industry will define its own cycle action, devoid of other than cycle variations; if, upon such a common ground of comparison, it will differentiate its own cycle of orders, for instance, from its own cycle of billings; and if it will compare the cycle of any one of its own factors with only the external cycle factors which are directly relevant to that one internal factor. Then will the industrial administrator look behind the cautiously worded general forecasts for "average business," only to find that there is some "rhyme and reason," some consistent "cause and effect" relation between a defined group of external business conditions and the cycles, past and future, of his own business.

There remains then but the definite application of his acquired knowledge, tempered by experienced judgment, to the adjustment and control of his practical every-day affairs. This final essential in the long chain of requirements is the test of value of all that goes before. *Will it work?* Best qualified to answer, undoubtedly, is the administrator who has travelled through the early attempts to harness in tandem "the cycle theory" and "increased profits." Therefore, in closing, we quote the statement of our own President²—a statement which, though based only upon some of our earlier experiences, would nevertheless be not only essentially duplicated but also broadened and strengthened after the experiences of later months.

"Here are the results for the year 1922: Our actual sales came within .5 per cent of our estimate. Cumulatively the first six months were 8 per cent in excess of the estimate; the first nine months were 4.3 per cent, but the full year's figures were so close to the estimate as to be a coincidence. We do not expect again to equal this particular record. We

²The control of an Industry in the Business Cycle, *Harvard Business Review*, Vol. I, No. 4, July, 1923; reprinted in *Bulletin of the Taylor Society*, Vol. VIII, No. 4, August, 1923.

have reason to believe that the earlier months of the year were thrown out of line because of our increased ability to ship promptly. Having advance information, we were able to decide on a production plan that would give us an even flow of material throughout the year, building up our stocks in the spring and summer months to meet the fall demand. This accomplished not only better service to our customers but greater economy of production, more even employment for our workmen, and a great decrease in labor turnover. It enabled us to anticipate our material requirements and to take advantage of low price conditions. It gave our treasurer exact information as to financial requirements. It made it possible for me to place before our directors a definite estimate of the amount of money that would be involved in producing in advance the excess stock necessary for fall delivery, and it justified them in adopting the program because I could assure them that this investment could be liquidated before the end of the year. It enabled us to set up an ideal inventory for the end of the year and to work toward final liquidation to this ideal point. It proved that this inventory control was practicable because we came within the limit set by my office.

"Of all these benefits, probably the greatest has been our ability to operate on an even basis throughout the year. Under the old conditions we would have produced 16 per cent of our total requirements in the first quarter; 22 per cent in the second quarter; 28 per cent in the third quarter; and 34 per cent in the fourth quarter. In 1922 it was possible to equalize approximately the quarterly production figures. In these days, when seasonal employment is one of the country's greatest problems, when labor turnover is great and when an actual shortage of labor has occurred, continuous employment at fair wages is the stimulus to the good workmen that no temporary attraction can equal. Carried over a period of years it will secure the type of labor that makes for economy and efficiency. This does not mean, of course, that we can counteract the cyclical fluctuations. The fact that we are able to take care of this problem within each calendar year is a substantial step in the right direction.

"Budgetary control is now one of the fundamental policies of the Walworth Company. It is our record of the past, our index for the present, and our guide to the future. We believe it to be an essential factor in our success."

THE main thing is not employee ownership, but the fusing of the two classes, the laborers becoming capitalists. There can be no class consciousness after that. They are all capitalists and when their capital becomes sufficiently abundant so that there is real difficulty in finding investments, interest rates must come down, and a good many people living on the returns from capital will have to go to work to supplement their income, by working for wages or salaries, so that it will work both ways. There will be a blending of the two classes until all but the very poorest laborers will have some capital and all but the very richest capitalists will have to do some work to make a living. Then, we will have achieved something like equality in all occupations. We shall have wiped out the distinction between capitalist and laborer, and one of the ideals of modern democracy will have been realized. (T. N. Carver, Lecture at Bureau of Personnel Administration, April 11, 1924.)

IT HAS long been our thought that one of the primary duties of a serviceable business is to see to the perpetuation of itself. It is economical to society—and that means all of us—to keep a settled business going; it is costly to society to be forever financing the experiment of new ones. (A Lincoln Filene, *A Merchant's Horizon*, p. 11.)

SOCIETY can well afford to pay a steadily rising wage-bill so long as it is steadily enriched by new intelligence and by a higher capacity for the producing of wealth and manhood.

And out of a mass of labor more and more relieved of the rougher drudgeries, more and more released to mental exercise and self-expression, I see emerging labor organizations with a keener understanding of the problems of business management, and greater readiness and fitness to undertake an active share in them. (A Lincoln Filene, *A Merchant's Horizon*, p. 224.)