in addition that mass consumption is largely financed out of wages and salaries, it is somewhat easier to understand why our productive capacity has outrun our ability to consume in recent years.

Chart VI presents indexes of productive activity, primary distribution, and distribution to consumer. These indexes are compiled by Carl Snyder of the New York Federal Reserve Bank. The productive activity index represents production of both producers' and consumers' goods. The primary-distribution index represents wholesale movement of goods, that is, carloadings, exports, imports, waterway traffic and wholesale trade. The distribution-to-consumer index represents retail sales. All of these indexes are in terms of physical units—not price units—and have been corrected for trend and seasonal. The relative stability of distribution to consumers as compared with primary distribution and more particularly as compared with productive activity is apparent. Distribution to consumers would be stabilized still more if mass purchasing power, largely represented by wage and salary payments, were maintained out of surplus and capital as are interest and dividends (see Chart V).

By using indexes of payrolls and data from the "United States Census of Manufacturers" and "The National Income and Its Purchasing Power," published by the National Bureau of Economic Research, it is possible to estimate decreases in total wage and salary payments from all sources. Such an estimate shows that total wage and salary payments were 15 per cent or eight and one-half billion dollars less in 1930, and 31 per cent or eighteen and one-half billion dollars less in 1931 than in 1929—a total decrease of twenty-seven billion dollars in the two years. Other estimates have placed these losses at a still larger figure. If these payments to workers had been maintained, at least partially, out of capital and surplus, it is unlikely that the "distribution-to-consumer" curve on Chart VI would show the precipitous drop that it has. It is noticeable that in the 1920-1921 depression consumption was fairly well maintained; while in the present depression consumption has declined nearly as much as production. This undoubtedly has been one of the most important factors leading both to the depth and to the duration of the present depression.

Distribution to consumers is the stabilizer of our economic society. In a period of prosperity production gets out of line with consumption. In a period of depression, the relative stability of consumption is one of the factors which eventually brings us out of it.

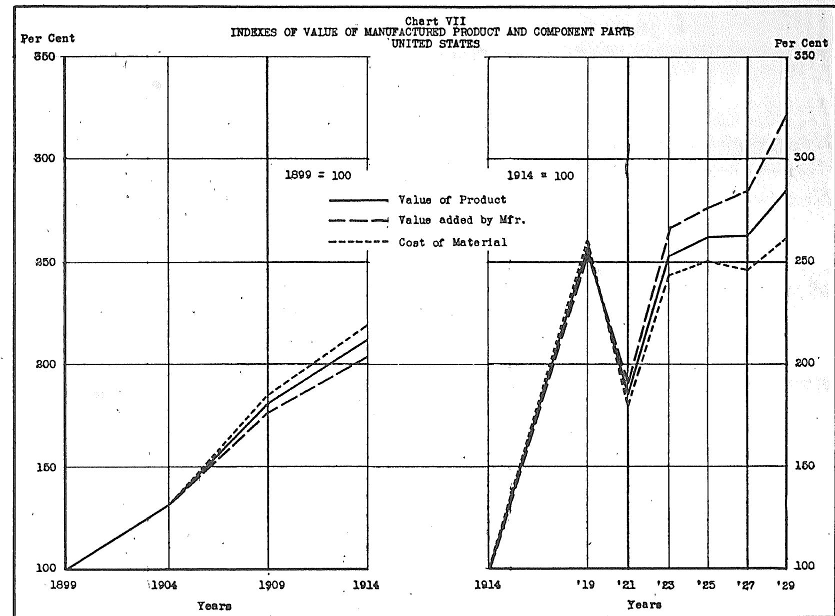
We often hear it said that it would be a good thing if all elements in our price system could be deflated in equal proportions and at the same time in a period of depression. What would happen if this could be brought about? The answer is that there would be nothing to check the progress of the depression. The unbalance and lack of adjustment which caused the depression would still be present at every stage of the deflation. This contention that all factors have to be deflated proportionally before recovery can take place is based on the tacit assumption that all factors in our economic system were inflated proportionally during the boom period. In deciding whether or not a given policy is a good one to follow in a depression, we have to consider whether or not that policy will tend to correct the maladjustment which brought about the depression. If it be true that insufficient consumers' purchasing power is an important factor in bringing about a depression, any policy that tends to decrease consumers' purchasing power and hence consumption is surely not going to assist us in getting out of the depression.

There is no disputing the fact that cyclical difficulties would be greatly lessened if wholesale and retail prices, cost of production, wage rates and profits could be kept in proper alignment with each other, not only in periods of depression, but also in periods of prosperity. It would seem, however, that we often criticize too unjustly the relative inflexibility of retail prices and wage rates in times of depression. We forget the fact that profits, interest rates and prices of producers' and capital goods are the factors that get most out of control in a boom period and help to bring about a depression. As a matter of fact, had profits, interest rates and prices of producers' and capital goods been maintained at a reasonable level in the seven years preceding the depression, there would probably not now be the necessity for such tremendous deflation.

We are constantly talking of stability, but it will never be obtained by tying wage rates and retail prices to the wild gyrations of rates of profits and prices of producers' goods. It was capital and profits that were most over-expanded in the boom period, and that should, therefore, be deflated—not wages.

Component Parts of the Value of Manufactured Products

Charts VII and VIII show the relationship between wages and other elements in the value of manufactured



goods on a price and not on a physical or real basis. The data presented in these charts were obtained from the "Census of Manufactures." It will be noted on both charts that since the War there has been a distinct change in the relationship between the different elements in the value of goods that are being manufactured.

Before the War, the cost of materials and the value added by manufacture increased at about the same rate (Chart VII). From 1899 to 1914 the cost of materials increased relatively more than the value of product, and the value added by manufacture increased relatively less. In other words, up until 1914, the cost of materials was slowly becoming a larger percentage of the value of the manufactured products. From 1914 to 1921 the cost of raw materials and value added by manufacture remained of practically the same relative importance. Beginning with 1921, however, value added by manufacture became of greater and greater relative importance, and cost of materials became of less and less relative importance in the value of the manufactured product. By 1929 the change in relative importance was quite great.

Chart VIII shows the value added by manufacture broken down into wages and overhead and profits. Here again we find the period after the War to be entirely different from the period before the War. From 1899 to 1914, and even up to 1919, wages and overhead and profits held about the same relationship to each other. In 1921 wages were not deflated as much as were overhead and profits. By 1923 the two factors were again practically together. Beginning with 1923, however, the value added by manufacture and overhead and profits increased rapidly while total wages paid held fairly steady. This means that profit and overhead were becoming of greater relative importance in the value added by manufacture. Unit labor costs, then, declined rather rapidly from 1923