



to 1929, while profits and overhead increased at a fast rate.

The first observation that one is led to make on this picture is, "Why have overhead costs increased so rapidly?" We have been producing bigger and better capital facilities, and we have been reducing labor costs; why have we not improved our economic position instead of getting into a mess? I think there are two factors which have worked hand in hand to bring about the results observed. In the first place, from 1923 to 1929 mass-production technique was developed at a rapid rate. New techniques and production methods generally give promise of larger profits. Following the beckoning hand of profits, we expanded into all lines without due consideration of demand or consumers' purchasing power. The consumer's dollar shrank in relationship to the huge volume of goods that was being put on the market. Producers started chasing the consumer's dollar by means of high pressure

salesmanship and advertising. The shrinking consumer's dollar was stretched by means of installment sales and credit in an attempt to make it go around. Greater profits were seen ahead, still more unwise expansion took place, and so on. We all know what the results have been. We piled up our profits and capital, and are now condemning the consumers for not buying more. We tell the wage earners that their wage rates must be deflated, and that they must bear a still larger portion of the depression's burden. In other words, we are trying to get out of the depression by using the same tactics that got us into it. In the long-run it would be better for our entire economic system if we could reverse this procedure and increase mass purchasing power even though it meant producing and selling goods at a loss for a time. Of course, such a plan is not possible where the sole incentive for producing goods is the working of an uncontrolled profit motive.

Summary

A large part of our national wealth is owned, and consequently a considerable part of our national income is received, by a relatively small part of our population. It is impossible for these persons who are extremely wealthy and who receive such large incomes to use all their wealth or spend all their income for consumption. They have to invest their wealth and spend their incomes in the production of additional goods or capital facilities; hence there is too small an amount of purchasing power left for consumption. Even under such conditions, however, business activity does not need to stop. If expansion were perpetual with production facilities continued in operation once they were created and the goods produced sold for what they would bring, consumers' purchasing power would be kept in line with producing power. This is not the way things work out, however. Goods will be produced and capital facilities used only when there is a prospect for profits. In other words, under our economic system goods are produced primarily for profits and not for consumption.

The severity of business cycles would be greatly lessened if the prospective rates of profit were not subject to such violent fluctuations, and if purchasing power available for consumption could be kept more in line with productive power in periods of prosperity, and maintained in times of depression. It is beyond the scope of this discussion to consider the various proposals, such as credit control, national planning, unemployment insurance, more steeply graduated income and inheritance taxes, etc., which have been suggested as a means of bringing about the desired results. Suffice it to say that the chief problem would seem to be that of distributing adequate consumers' purchasing power to consume the goods produced. Reducing wage rates does not seem to be a policy which will bring this about. Likewise, those proposals for national planning which have as their purpose merely the control of production and capital expansion without a program for expanding or maintaining consumers' purchasing power would not seem to give much promise of success.

Appendix A

Description of Data, Sources and Method *Payrolls, Hours and Earnings in Manufacturing Industries*

The United States Bureau of Labor Statistics compiles monthly indexes of employment and payrolls in fifty-four manufacturing industries. These indexes are based on data

furnished by 13,250 establishments employing 3,600,000 wage earners, or about 60 per cent of the number employed in the fifty-four industries. The industries represented employ about 75 per cent of the total number employed in all manufacturing industries in the United States.

The data reported by these establishments are for the payroll period ending nearest the fifteenth of each month. Since the payroll period varies in length among different establishments, all data are placed on a weekly basis before they are combined into indexes.

In the preparation of Chart I, these indexes of employment and payrolls were changed from a monthly to a quarterly basis. The quarterly data are presented in Tables 1 and 2, Appendix B.

The index of average weekly earnings, shown in Chart II, was obtained by dividing the quarterly indexes of payrolls, Table 1, by the indexes of employment, Table 2. These quarterly indexes of earnings per week are presented in Table 3. The National Industrial Conference Board constructs an index of weekly earnings in manufacturing industries which agrees very closely with this index.

The index of average hours worked per week in manufacturing industries, shown on Chart II and in Tables 4 and 5, is compiled by the National Industrial Conference Board and reported in *Survey of Current Business*. This index is based on average man-hours worked each week in 1,444 manufacturing plants throughout the United States. While the establishments included in this index are not identical with those included in the Bureau of Labor Statistics indexes, the use of this index would seem warranted, since the National Industrial Conference Board index of weekly earnings agrees very closely with the weekly-earnings index which we have constructed by using Bureau of Labor Statistics data.

The index of average hourly earnings, shown on Chart II, was obtained by dividing the Bureau of Labor Statistics index of average weekly earnings, Table 3, by the National Industrial Conference Board index of average hours worked per week, Table 5. These quarterly indexes of average hourly earnings are presented in Table 6. It is unfortunate that it has been necessary to use data from two different sources in the calculation of average hourly earnings. However, it was felt desirable to obtain some idea of recent changes in average hourly earnings, and no better data seemed to be available. It is admitted that this index is crude, and it is not used in any analysis other than in Charts II and III. Its weaknesses, therefore, will not affect the soundness of the remaining analysis presented in this report.

Real Earnings Per Hour and Real Payrolls

The quarterly cost-of-living indexes, presented in Table 7, were obtained by the following procedure: (1) The United States Bureau of Labor Statistics indexes of cost of living, which were issued quarterly up to December, 1924, and semi-annually thereafter, were put on a monthly basis by interpolation. (2) The base year was then changed from 1913 to 1926. (3) The monthly indexes were then averaged into quarterly indexes.

The Bureau of Labor Statistics index of cost of living is