Business recovery and national progress

BY A. B. ADAMS

Practically every one now realizes that the present business depression is not just a state of mind of the public; we have had it firmly impressed upon us that it is a physical reality based on actual economic conditions. The economic conditions which led up to the depression were somewhat similar to those which have led up to other business depressions. We had a period of prosperity in which there was increase in production, increase in trade and considerable inflation in bank credit. This period of inflational prosperity was followed by the depression, as former periods of inflational prosperity have been followed by depressions.

During the period of prosperity from 1923 to 1929 our economic system was thrown out of balance. At this time we learned to increase our power to produce goods, but we did not at the same time improve our methods of distributing money income with which to buy the goods produced. The depression was caused fundamentally by a shortage of current money income with which to purchase the goods offered at prevailing prices. The upward swing of business was sustained for several years, in spite of the growing shortage of current money income during the period of prosperity, through the use of bank credit in creating an artificial demand for goods.

As a result of a greater volume of output and of improvements in production methods, the cost of production was lowered from 1923 to 1929 in most industries; but prices were not correspondingly reduced. Profits increased and the percentage of the national money income which went to laborers was decreased. Profits were largely reinvested in business for further production, and the nation's current money income available for the purchase of consumers' goods did not keep pace with the increase in the amount of goods offered to consumers. For a long time the shortage in consumers' money income was augmented in the market by an artificial purchasing power in the form of (1) installment purchases, (2) expenditure of speculative profits from the stock market, and (3) a large foreign trade balance made possible by America purchasing large quantities of foreign securities. When these artificial props to the market were removed by the deflation of bank credit, the depression occurred.

Since the beginning of the present depression, some suggestions as to how to bring about business recovery have received national attention. Very early in the depression President Hoover attempted to put into effect his theory that the business depression could be stopped (1) by increasing public expenditures for construction and (2) by having the leaders of big businesses agree to continue to operate their businesses on a normal scale and at the same time increase their expansion activities. I believe President Hoover gave this theory a sound testing, and it is evident now to everyone that his plan did not stop the business depression.

The reason why the president's plan did not stop the depression was because it was fundamentally unsound: In the first place, it is not possible to expand public construction to such an extent as to create the enormous demand for goods which would be necessary in order to stop a business depression. In the second place, it is not possible even for a president to induce business leaders to expand their businesses in the face of declining prices. If it had been possible for President Hoover, through such a policy, to have stopped the business depression temporarily, he would have succeeded only in perpetuating the fundamentally unsound business conditions which had developed during the period from 1923 to 1929. During this period too much bank credit had been used in the security market and in the foreign trade market, and too many goods had been bought on the installment plan. Also, at the same time we greatly increased the physical volume of production and considerably lowered the cost of production; but we did not increase the amount of money income received by consumers sufficiently to enable them to purchase the consumers' goods which were produced. If President Hoover had succeeded in stopping the depression at the beginning, he would have perpetuated temporarily this undesirable lack of balance between production and money income.

The suggestion that everyone spend more money and buy more goods in order to bring about a business recovery also received national attention. This suggestion not only was fundamentally unsound, but it was actually silly. The main cause which brought about the present depression was that consumers were not receiving sufficient money incomes with which to purchase the goods which were offered to them at prevailing prices. Certainly, under those conditions, without having had an increase in the money income, they were unable to purchase at prevailing prices the great surplus quantity of goods in the market during this depression.

Again, the suggestion has been made (and apparently supported by the United States chamber of commerce) that wholesalers and retailers buy goods normally instead of reducing their stocks of goods so that the manufacturers would be able to start up their factories. This suggestion has even less merit to it than has the one that consumers sustain the market by buying more. The wholesaler or retailer who would increase his stock of goods in the face of falling prices would indeed be a poor businessman. This suggestion smacks more of propaganda than it does of a sound business policy.

The beginning of depression is characterized by a decline in wholesale prices. This is followed by the closing down of some industries and part-time operation of others. As a result of the closing down of industries, unemployment increases and the demand for consumers' goods rapidly falls off. Concomitant with this movement is the deflation of bank credit which always occurs during depression. Along with the deflation of bank credit comes the increase in business failures and the writing off of bad debts by many business enterprises. The deflation of prices is more drastic in reference to raw materials than to other classes of goods, and is always more rapid in wholesale prices than it is in retail prices. But, during the depression, retail prices are gradually reduced to where they are somewhat in line with the lowered wholesale prices.

After the depression becomes a reality, business enterprises decrease their cost of production through more effective methods of business administration, lower cost of raw material, and some reduction in wages. For quite a while after the depression becomes a reality, the demand for goods does not increase; but the country appears to be faced with an enormous surplus of goods of all kinds. However, as time goes on, the surplus of goods is gradually reduced and in some cases used up. Also, in most businesses, the cost of production is decreased to where cost is in harmony with the lower prices prevail-
ing. With the using up of the surplus goods and the readjustment of cost of production to lower prices, there is a gradual improvement in general business conditions. As recovery comes about, industries that were closed down resume part-time operation and others increase their scale of operation. More laborers are employed and the demand for consumers' goods increases. This process continues until full business recovery is reached. Such readjustments are necessary before business can again operate on a sound basis.

In the present business depression we have reached the point where the surplus stocks of goods in many industries have been greatly decreased, and many factories are increasing their output. But, because of the necessary fundamental readjustments which must be made in the distribution of the national money income during this business depression, it is likely that recovery will be slow and halting.

Notwithstanding popular opinion to the contrary, fundamentally there is often quite a difference between business prosperity and national welfare and progress. The country may have intense business prosperity and at the same time make no national progress; also, we may make real national progress under conditions of mild business prosperity. Business prosperity is measured in terms of the productiveness of business enterprises; it is evidenced by an increase in the demand for and prices of the goods turned out by business enterprises. A general increase in the demand for goods may be, and often is, artificially stimulated by the inflation of bank or government credit. Such business prosperity is unsound; it contributes nothing to national progress, and will inevitably end in another business depression.

In order to have national welfare and progress the increase in the demand for goods turned out by business enterprises must be due to an increase in the actual purchasing power of the public which purchasing power is derived wholly from the current money income of the nation, rather than partly from bank credit. Sound national economic conditions can be maintained only when the current demand for goods is based upon the actual income which is currently derived from national production. Solid national progress depends upon the proper balance between production, prices, and the size of the current national money income. The national money income must be large enough to enable the public to purchase at prevailing prices the goods produced, without borrowing money to do so. The most important part of the national money income is that part which is used by consumers to purchase goods and services for consumption. Under conditions of sound national progress, the increase in demand for consumers' goods must be due to an increase in consumers' current purchasing power rather than to instalment purchases or other credit purchases.

Efficient business enterprises may enjoy substantial prosperity under conditions of non-inflation and national progress. But, under such conditions profits will not be due to price manipulations, but to actual service to society. During the present business depression we should endeavor to adjust our national economic and business relationships in such a manner that the nation will enjoy permanent progress in the future, rather than to have a short period of inflationary business prosperity. In order to do this, it will be necessary to prevent the inflation of bank and government credit and to make certain fundamental adjustments in production prices, and in the distribution of money income.

Today we hear a great deal about the over-production of goods of all kinds. Certainly, in some industries, we have a surplus productive capacity above actual physical need in the case in the agricultural and petroleum industries, and it is true to a lesser extent in a few other industries. In the industries where there is an excess of production above our physical needs, we should limit further production by the application of definite public policies to each.

But there is no general over-production of goods in the United States. The general glutting of our markets is not due to a general over-production of goods; it is due, in large part, to a shortage in current purchasing power rather than to an excess of production of goods. From 1923 to 1929, through the inflation of bank credit in the stock market the foreign securities market, and in instalment buying we created an artificial demand for goods and greatly stimulated production; when this artificial demand was removed we were left with a great market surplus of goods at prevailing prices. If the demand for goods during the period had been limited to the actual money income of the nation, we would not now have a general surplus of goods. In the present depression we are paying for the sins of past inflation; in doing this we must have deflation and a general reduction of prices.

In order to insure continuation of and increase in production it will be necessary to increase the current purchasing power of consumers so they will be able to purchase the consumers' goods turned out and placed on the market. To increase the purchasing power of consumers it will be necessary to reduce prices and to pay a larger percentage of the national money income to laborers as wages and a smaller percentage of it to property owners as interest, dividends, and fees and commissions. It is that part of the national money income which is spent for consumers' goods which sustains the general market. So consumers' income must be increased if the market is to be sustained. If consumers' incomes are increased (by increasing wages and lowering prices) it will be possible to expand old industries and to build new ones to satisfy new consumers' wants.

Because of the great technological progress which we have already made in production, it is now possible to greatly reduce the hours of work per day for each laborer. With better management and further technological progress it will be possible to have two sets of laborers for each factory, each set working one-half day each day. By having two sets of laborers for each factory, and thus operating the factory for a greater number of hours each day, it will be possible to secure a lower capital and overhead cost per unit of product.

Ordinarily, under competitive conditions in the course of the development of an industry the prices of balance between output and the decrease in the cost of production has been reduced as a result of an increase in production and lowering of cost of production, but the prices of manufactured goods have not been decreased in proportion to the increase in output and the decrease in the cost of production. As a result of the decrease in the cost of production and the stabilized price level of 1922-29 American manufacturers made larger profits during this period than they did during any other period of American history. During the present business depression, the prices of manufactured goods should be reduced to a level where this class of goods will be in line with the prices of agricultural products. In the future the balance between the prices of manufactured products and agricultural products should be retained on a basis of the relative cost of production of each class of goods.

The most necessary adjustment to be made in our industrial system is to increase the current purchasing power of consumers. In order to bring about this, it will be necessary to decrease the prices of manufactured products, to increase the rate of wages, and to decrease the dividends and interest rates received by the property-owning class. On the whole, dividend rates have been too high and corporate surplus has been too large in the past decade. Most of these excess profits should have been paid out to consumers as wages.

In order to bring about the necessary readjustment between the income of the laboring class and the income of the property-owning class, it will be necessary to apply certain specific public policies to American business. The following public policies should be applied:

1. Public control of bank credit should be strengthened so that it the future bank credit can not be used to inflate the value of securities, to be used to supply per...
paved, and many of the streets are moderately straight while others merely follow the winding county lanes of another age. One must soon learn the local way of denoting direction. Ask a traffic cop the way to One Lung On Cheong's photo shop and he will say, "Three blocks Ewa, a little Mauka then little more Ewa." "Mauka," toward the mountains, "Maikai," toward the sea, takes the place of north and south. "Ewa" for west, "Waikiki" for east.

When one tires of the "eternal spring" of Oahu then a trip to the Island of Hawaii is needed. Here one may view snow capped Mauna Loa and the rugged peaks of Mauna Kea. Kilauea recreation camp is at an altitude that gives one late fall weather. In addition to a change of climate there are many scenic wonders to visit. Chief of which is Kilauea volcano, a great shiny-black lake of some three thousand acres with vapors rising in mystic mists through thousands of lava cracks. About three miles over a trail on hardened lava brings one to the edge of the fire pit of Halemaumau, Kilauea's eternal seat of activity. Here too, one must motor or walk through the fern forests, forests of huge fern trees, and visit the great lava tubes.

Soldiers refer to duty on Oahu as duty "on the rock," and one might well liken the island to a rock. It juts up a mere dot on the surface of the broad Pacific. One does get homesick occasionally, but after the two or three years tour is up and home-folks have been visited, then another "tour on the rock" is something to look forward to. Yes, we enjoyed our tour and we miss the liquid sunshine; the gorgeous flowering pink and golden shower trees; the scarlet jaceranda; the thousand color combinations of the hibiscus; the deep red of the poinsetta and the "eternal spring" of the "Paradise of the Pacific."

BUSINESS RECOVERY AND NATIONAL PROGRESS

(continued from page 293)

1. The organization, reorganization, and consolidation of business enterprises should be under public control, and the issuance of stock dividends and watered stock should be prohibited by law and public policy.

2. The law creating the commission and declaring by the federal reserve board that the federal reserve board has over the issuance of securities regardless of the public policy. The commission, which should have the same kinds of power over the issuance of securities of business corporations that the interstate commerce commission has over the issuance of securities by American railroads. The law creating the commission and defining its powers, should give it the power to prohibit the issuance of any new securities except where the corporation actually needs more new capital on which to operate.

Through trade association activities many manufacturing concerns in this country have been able to hold up their prices in the face of a decreasing cost of production. A certain amount of cooperation between competitors is desirable, but there should be a federal law regulating the activities of trade associations. This law should require the federal trade commission to regulate and supervise the activities of trade associations. The law should state specifically the kind of activities which would be unlawful for the trade associations to participate in—i.e., price agreements, agreements to limit output in order to raise prices, etc. The law regulating trade associations should provide that representatives of the laborers as well as the employers shall have membership in these associations. Meetings of such associations should be attended by representatives of the federal trade commission and a record of their activities should be kept by the federal trade commission as public documents.

The number of retail firms in practically every line of business is far greater than the country needs in carrying on its retail business. Everyone admits that we have too many filling stations, and it is fairly evident that there are too many drug stores and too many small grocery stores. The reason why the cost of retailing in the United States is greater than it is in any other country is because the number of retail establishments in this country is so great that the volume of business of each must necessarily be small. In order to secure a reasonable cost of carrying on a retail business, it is necessary to have a large volume of business and a rapid turnover of the stock of goods. Only in such a retail business is it possible to secure a low overhead and operating cost per unit of goods sold. We keep the goods on the shelves too long and have too many idle clerks standing around waiting for customers who never come.

If we are to reduce the margin between wholesale and retail prices, we must reduce the cost of carrying on our retail business. In order to do this it will be necessary to decrease the number of retail establishments. A decrease in the number of retail firms may be brought about either through the development of chain cooperative retail stores, or through the development of more efficient privately owned chain store systems. If we permit the development of the privately owned chain store systems, we must adopt a policy of strict regulation so that monopolies in the distribution of food will not develop with the growth of chain stores. England has solved her retail problem through the growth of a cooperative chain store system. We would do well in this country to follow England in her retailing system.