

upward flight of the cyclical curve and thereby reduce the extent of the subsequent fall. Conversely, through its knowledge of the extent to which the depletion of stocks on hand has gone on, and from its commanding position of control of the national cash and credit resources, the Federal Reserve Board would be in a position of encouraging the resumption of industrial activities at a much earlier stage than has been possible for individual banks and individual business enterprises in the past, with the limitations upon their knowledge of national conditions and upon their individual resources. In other words, the cycle curve would be more or less flattened out.

Next to the control of credit are the public works operations of the national, state, county and municipal governments. Much of this building has to be done from year to year to satisfy current needs, but a large part of it could be deferred from time to time. If the Congress, the state legislatures, county boards and municipal councils could be induced to adopt a decennial, or at least a quinquennial budget for public works instead of the annual appropriations now in vogue, and if the executive authorities were entrusted with the power to expend these appropriations over the five or ten year periods, reducing building operations to a minimum when business is booming and there is a scarcity of labor and materials, and spending the accumulated reserves in years of depression when private business is at a standstill and there are ample supplies of labor and materials at reasonable prices, apart from the enormous savings this would result in for the people at large, such a practice would furnish another important factor in still further flattening the curve of the business cycle.

We are now in a position to answer the second question as to ways in which management of enterprises can reduce cyclic fluctuations. It can do so by seconding the efforts of the government authorities by doing certain work in slack times rather than in busy times as has been practiced until now. To do so requires almost a complete reversal of policy on the part of the higher business executives. What from a short-range point of view seemed the acme of conservatism and sound business policy, becomes shortsighted and suicidal from the long-range view of the business cycle.

An illustration will make this clear. When business falls off or only tends to fall off, the usual advice of the banker or the policy of the conservative chairman of a board of directors is to reduce the overhead. Executives of long experience, even though of minor stand-

ing, are unceremoniously dismissed, the selling force is greatly curtailed, the advertising appropriation is cut down and everything in the nature of an overhead expense is cut to the bone. This is pointed to "with pride" in the report to the stockholders as evidence of sound management.¹

Not so long ago, Mr. Henry S. Dennison, President of the Dennison Manufacturing Company, surprised audiences of economists and of business men by telling them of the success attained by his company by following a policy which the old-fashioned banker and business man would call reckless. When business was booming in 1919 and in the early part of 1920, the Dennison Manufacturing Company allowed its selling force to become greatly depleted by failing to fill vacancies created by resignations and discharges. When Mr. Dennison saw the signs of the approaching storm of 1920, he began preparations for meeting the coming emergency, not by cutting down the force still further, but by practically doubling it, in order to be in a position to make the increased selling effort which bad times require. Instead of curtailing his advertising appropriation, he spent more money than ever when the depression set in. Instead of "trimming his sails," he put new products on the market when old ones did not sell as well as before. Instead of being liberal with credit in boom times and curtailing it to the limit in hard times, he reversed the process and thereby flattened the cycle curve of his own business to an extent that seems almost unbelievable.

Not every business can work to stock, but where the product lends itself to such purpose and the financial and credit resources of the company permit of such practice, it is the height of wisdom to make up stock in times of depression when costs of production are at a minimum, and have goods ready for immediate delivery when orders begin to come in. The effect of this is, of course, to flatten the curve of the cycle.

The same is true of the building program of a business. Any company which has been in business for more than ten years can plot its own growth against a curve of general business conditions and guide its own building extension program so as to build additions and add to its equipment not at the crest of the business curve at highest costs, as is usually done, but rather during slack times at minimum costs in preparation for the next upward swing of business.

This adaptation of the individual business to the swings of the cycle will have a two-fold effect: first, to reduce to a minimum the losses resulting from failure

to foresee the course of general business and steering one's own business accordingly; second, the aggregate effect of several concerns doing the same thing would be to tend to flatten out the business curve. How marked the effect of such individual action would be in the aggregate, I can indicate best if you will permit me to quote from a recent article of mine.

When it is remembered that out of a total of 290,105 concerns engaged in manufacturing and mining, 1,019 concerns or 0.4 per cent employing 1,000 or more workers each, give employment to more than 26 per cent of all the wage-earners employed in these industries and that 2 per cent of the plants

employ more than 53 per cent of all the workers in these industries, the tremendous aggregate power which this comparatively small number of concerns could exert in modifying the business cycle will become apparent. Apart from the direct effect which they would exert as producers, their immense purchasing power as users of the products of other industries, coupled with the purchasing power of their employees as consumers, would have a great steadying influence on the demand for the products of industries and concerns which might not be taking any initiative or making any conscious efforts to adapt themselves to the business cycle. The cumulative power of private initiative can thus be made a powerful factor in seconding governmental efforts to control the business cycle.²¹

¹ *Business Cycles and Unemployment*, National Bureau of Economic Research, McGraw-Hill Book Co., p. 133.

AS prices began to rise, confidence gained and expenditures increased, until the country has reached the full swing of expanding activity and rising prices. It is working now not only to supply present needs, but to make up the deficit inherited from the war and the idleness of 1921 and provide for anticipated needs. For the time being the situation is fairly well balanced. . . . How long will the equilibrium be maintained? The outlook for business at this time is very good. If industrial costs and the general level of prices could be held where they are, there is every reason to believe that this pace might be maintained at least through the present year, perhaps longer. . . . The check will come as relationships between various groups of producers are altered, affecting the basis upon which they exchange services. . . . The tendency now, as other things (than farm products) are rising is against the (farmers). . . . A great number of the wage-earners will not be able to get their pay increased to correspond with the rises that are talked of in some of the favored industries. As prices rise all those whose incomes are not increased in equal proportion will have to curtail expenditures somewhere. As yet these rising prices are only slightly reflected in retail prices. They are taking place in the processes of manufacture. . . . (There is reason for concern about their ultimate effect on consumptive demand.) Evidently it is not desirable to have

prices advanced beyond the level at which consumption can be sustained. . . . The trouble arises from the impatient efforts of the public to drive the industrial organization beyond its capacity. . . . There is good reason for believing that the level of industrial costs in this country is already fully as high as can be sustained, with a general revival of industry and competition over the world. (National City Bank of New York, Monthly Bulletin, April, 1923, pp. 49, 50.)

IN an article in a recent issue of the *Bulletin* (December, 1922, p. 211) the prophecy was ventured that for say a decade readjustment to new general industrial and price conditions would be manifested in minor cyclic ups and downs of "prosperity," and the warning given that this probability should be taken into consideration in determining administrative policy and management plans. We are, therefore, interested in a recent address before the National Monetary Association (New York, June 7, 1923) by Col. Leonard P. Ayres, of the Cleveland Trust Company, in whose statistical work and judgment we have great confidence. The *New York Tribune* reports him to have said that a long period of prosperity has never followed a period of severe depression, and that signs now point strongly to a "depression" which will get into real swing by the fall of 1924.