

# Business Cycles and Unemployment<sup>1</sup>

A Recent Study of the Cycle and of Measures Taken by Various Firms to Avoid Its Influence

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AN EDITORIAL that appeared in *Collier's Weekly* under the caption "Dangers of a Little Learning," on December 8, 1923, expresses a fairly typical body of opinion. Its language is as follows:

Have we really gotten as far as H. G. Wells hopes since our superstitious ancestors consulted oracles and sought signs? Oracular minds now dwell on the danger of attempting anything when business statistics are not ranged in rainbow peaks. It is difficult to imagine Harriman breathlessly awaiting the latest Federal Reserve Board report, or James J. Hill and the elder John D. guiding their footsteps by the cool, steady light of the Harvard Economic Service. If the 1924 presidential election could be held tomorrow, Henry Ford might win by a huge popular majority. If he did so, it would be because people value the man who does not wait on changes, but makes them. Have the master minds really figured that out?

A stronger individualistic slant is reflected in a comment by a member of a prominent New York engineering firm apropos of the plan for creating an unemployment fund recently inaugurated in the Chicago men's clothing industry:

I suppose the underlying theory is that the manufacturers pass the tax along to the consumer anyway. I am afraid I am not much of a booster for many economic practices, and the same reasons that compel manufacturers to contribute to paternalistic schemes in the interest of employes could conceivably be applied to the government. Now I think we all know that the last suggestion is impractical and as the plan diminishes in magnitude it becomes practical only because men of sufficient grasp can be found who can swing it. The real question in my mind is why people should not provide their own unemployment funds.

Professor John R. Commons, reviewing the volume now under review here, in the November-December issue of the *American Review*, approaches the picture from quite a different angle:

<sup>1</sup>Reports and Recommendations of a Committee of the President's Conference on Unemployment including an investigation made under the auspices of the National Bureau of Economic Research, McGraw-Hill Book Company, New York, 1923, pp. xl, 405.

What is needed in the public psychology, as much as anything else, is to get away from the individual standpoint and take the class standpoint. When we begin to look at the business man from the class standpoint then we will not so greatly admire the business man who has wisely unloaded on other business men, but will ask, What becomes of the latter and of the wage-earners in their factories?

When we look at things in this way, then we shall be more willing to do the things necessary to stop these cycles of prosperity and depression. We shall then begin to realize that both the short-time depression and the long-time trend towards depression are likely to result from the preceding inflations, and shall be more willing to adopt the methods necessary to stop the inflation, notwithstanding the outcry that we are "killing prosperity."

In many matters of public concern we have the same problem of the modernist and the fundamentalist that confronts the churches. There is encouragement for the modernist in the thought that most of our worries are over things that never happen. In any case, whatever we may ultimately do about the business cycle, studying it is a matter in which moving appears clearly preferable to standing still. Advancing our knowledge by scientific inquiry will probably promote wise policy more rapidly than abstract speculation about the rightness or wrongness of business acts or omissions. As long as we move in the path of science we are likely to move safely.

Moving in the path of science means adjusting policy to the conditions to which it is applied, as these conditions are revealed by pertinent facts accurately ascertained, carefully analyzed and correctly interpreted. Analysis and interpretation must, of course, take account of human as well as material facts. A scientific approach requires competent statistical and technical service but it requires still more the direction of a socially minded intelligence. It is a truism to say that the social factor has come to be generally recognized as one of the most difficult factors with which business policy has to deal.

From this standpoint there is no task to which trained and socially minded intelligence can be more

fruitfully addressed than to an effort to stabilize business and employment. The end towards which the study of business cycles and unemployment is directed is one with which informed opinion must find itself in complete accord. Conceding the rightness of the end, the value of the study depends upon its effectiveness in promoting that end.

The volume is made up of a Foreword by Herbert Hoover (2 pages), the Committee Report and Recommendation (24 pages), and 389 pages devoted to an investigation by the National Bureau of Economic Research.

The Committee makes it clear that it has approached the subject primarily as a business problem. Its recommendations cover the following fields: Collection of Fundamental Data; Larger Statistical Service; Research; Control of Credit Expansion by Banks; Possible Control of Inflation by the Federal Reserve System; Control by Business Men of the Expansion of Their Own Industries; Control of Private and Public Construction at the Peak; Public Utilities; Unemployment Reserve Funds; and Employment Bureaus.

In explaining the necessity for collecting fundamental data the committee urges especially the need for data from individual concerns showing the rate of production of physical units, stocks on hand and in transit, trend of prices, volume of sales, trend of money rates, speed of freight movement, statistics of employment. The use of such data assembled in impersonal form is emphasized by the fact that the prevailing impression early in 1920 was that scarcity of available goods necessitated placing orders far in advance, while in the summer of 1921 it was commonly believed that stocks exceeded demand. In both cases the reverse of general belief was true.

The recommendation for larger statistical service includes improvement and standardization of work now being done, speeding up publication, telegraphic reports for publication within ten days, concerning stocks and production of raw wool and cotton and their textiles; hides, leather and shoes; iron and steel and their leading fabricated products; zinc, lead and copper with leading products, and bituminous-coal.

Following the example of research in physical science an expansion of economic research in business concerns is recommended, this to supplement the statistical work of the government and to be itself supplemented by encouragement to disinterested research by universities and research foundations.

In an introduction to the Report of the National Bureau of Economic Research, Dr. Wesley C. Mitchell, who had general charge of the investigation, points out that because of limitations of time, size and scope, the report is not an exhaustive treatise but rather "a reconnaissance survey, run quickly through a wide territory, in the hope of enabling the social engineers to locate the most promising routes for the construction of new highways." He also explains that it was necessary to secure the cooperation of those most familiar with the various detailed problems, and emphasizes the large share they and the organizations with which several of them are connected had in the investigation.

As would be expected under these circumstances, the report is essentially a group of monographs by different authors rather than an integrated and closely knit piece of research. Individual monographs vary in value because of variety not only in the kind and quantity of available material but likewise in outlook and workmanship. The monographs are grouped under three captions; the Relation of Business Cycles to Unemployment, Cyclical Fluctuations in Employment, and Proposed Remedies for Cyclical Unemployment. Since the arrangement does not appear to have been dictated by any definite logical principle, comment will perhaps be most profitably addressed to such of the individual chapters as appear to call for special mention.

Chapter I is a masterly condensation to 14 pages of Dr. Mitchell's authoritative work on Business Cycles. It is a chapter the content of which every thoughtful business man should make his own.

Chapter III, by Dr. Mitchell and W. I. King, attempts to estimate the economic loss from business cycles, based upon index numbers of physical production made by E. E. Day and W. W. Stewart. This comparison shows that the worst years run 15 per cent to 20 per cent behind the best and 8 per cent to 12 per cent behind the moderately good. The authors are careful to emphasize that their calculations do not cover intangible economic and social strains nor do they take account of possible compensating effects of fluctuations in stimulating progress and efficiency.

The value of Macaulay's chapter on Individual Industries is chiefly by way of suggesting some avenues of approach to such study by the statisticians of particular concerns. Persons familiar with the industries covered will recognize such limitations in the data as to preclude drawing conclusions from them.