

# Must Prosperity Be Planned?

Can Effective Demand Be Adapted, Controlled and Graduated in Step with the Constant Increases in Productive Capacity?

By H. B. BROUGHAM

Pollak Foundation for Economic Research, White Plains, N. Y.

AMONG the recommendations to eliminate waste, prepared by the Hoover Committee of the Federated American Engineering Societies' appears the following: "Productive capacity should be conservatively based upon a careful study of normal demand." A little further on the Committee urges: "Production schedules should be based on a carefully formulated sales policy, determined from an intensive study of markets, thus stabilizing production."

Planners of prosperity, not for individuals but for the nation, would turn these maxims inside out. They would change the first maxim to read: "Normal demand should be based on a careful study of productive capacity, and should be steadily increased as capacity to produce increases."

The second recommendation would read, as revised: "The aim is not to stabilize production, but to expand production, and to remove any purely monetary hindrance to that expansion by providing that markets be supported by an always adequate purchasing power."

Thus private sales policy would be reduced to the welcome task of ascertaining the selective preferences of a patronage that is at all times able to buy the full output. Production would not be stabilized, but mobilized with a view constantly to raising the standard of living.

Is the fluctuating "effective demand," now too great, now too small, which characterizes opposing phases of the "business cycle" the defeatist factor in production? If so, let us see whether effective demand can be adapted, controlled and graduated—as, by common sense, it should be graduated—in step with the constant increases in productive capacity.

For if the general purchasing power of consumers

<sup>1</sup>Paper presented at a meeting of the Taylor Society, New York, December 9, 1927.

<sup>2</sup>"Waste in Industry," Washington, D. C., 1921, p. 5.

cannot be increased with reference to the ever strengthening grip which management and invention take upon natural resources, then we must surrender to the blind forces that have hitherto ended our brief intervals of prosperity; it could neither be planned nor perpetuated, nor could waste be prevented. Let the fluctuations of demand be never so sharply watched, they would necessitate the establishment by whole industries of "peak loads" within their always uncertain range, and valleys of shadowy demand that must mean waste of plant and equipment, even where waste of merchantable goods and service is forefeared.

Thus when demand failed the country during the deflation that began in July, 1920, high powered machinery and improved systems of management were either crippled, put out of commission, or used for destructive competition. To every individual producer the limiting of productive capacity to the prevailing shortage of demand, creating further demand shortages through shutdowns and unemployment, became imperative. Of course, for business as a whole this policy, which seemed inevitable, was also suicidal. It meant that management was harnessed to restriction and denial of the real needs of society and that its members were deprived of employment while still willing to produce from ample resources to the full extent of their needs.

## Extent of Unused Facilities

Consequent on the slump of prices in 1920, the production of 195,000 manufacturing establishments fell during 1921, according to the Federal Bureau of the Census, to 57.1 per cent of possible output.

But with a plentiful consumer demand under a competitive system, it is conceivable that most industries would run at nearly their practicable capacity. In certain industries seasonal variations and fashion demands would still force a "peak-

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load" capacity. But even so, brisk demand in other lines would suggest the use of the same machinery in off seasons for the products demanded. Under such stimulus obsolescence of machinery and plant would be met by speedy replacement, while competitive duplication would be reduced by mergers permitting the economies of large scale production. But during a depression like that of 1920-21, when "overbuilt" factories and equipment hung like loose clothes about the shrunken form of industry, we have the Hoover Committee on Waste reporting: "Clothing factories are built forty-five per cent larger than is necessary; printing establishments are from fifty per cent to 150 per cent over equipped; the shoe industry has a capacity of 1,750,000 pairs of shoes a day, and produces little more than half that number; throughout the metal trades, standardization of products would permit of large reductions in plant and equipment."

Even in 1923, which was a record year for post war increase in physical output, the Bureau of the Census reported for all manufacturing industries an estimated output 28.2 per cent below capacity.

But it should be noted that the Census estimates of unused facilities in 1923, as likewise of those in 1921, are extremely undependable, because comparatively few plants keep accurate records of idle equipment. Moreover, there is a quite general custom of knocking off some fifteen per cent from the real capacity of a plant in allowance for repairs, lack of tools and material, etc., and of regarding the eighty-five per cent that is left as one hundred per cent capacity with respect to sales. During the war, and more recently, it has nevertheless been found that when sales approach the real capacity of a plant, these other matters are taken care of outside working hours. I might conjecture that members of the Taylor Society would regard the Census estimate of 28.2 per cent idleness for manufacturing industries, even during the prosperous year 1923, as quite too low an allowance. Indeed, one member, speaking from records in a number of plants in various industries, declares that the majority of plants "actually ran their machines only about forty to sixty per cent of the time," and that "lack of orders or sales is usually accountable for seventy-five to eighty per cent of the idleness."

<sup>3</sup>"Waste in Industry," pp. 17, 18.

<sup>4</sup>Wallace Clark, *Proceedings of the Academy of Political Science in New York*, July, 1927, p. 130.

Mr. Clark added, in words which may prove historic in the annals of management engineering: "One of the major problems of American industry is to determine whether to reduce productive capacity until it matches effective demand for goods, or to increase the purchasing power of consumers to keep pace with a productive capacity that is constantly growing. The American standard of living is now the highest ever recorded for any nation, but it should be raised to a level far higher. Our present living standard, as reflected in consumption of goods, will have to be increased by at least one-third in order to absorb the normal unused margin of American industrial capacity. To the engineering mind the solution of this problem inevitably lies in the increasing of purchasing power, for it is inconceivable that the expansion of American industry can be arrested."

But beyond what is common knowledge among business men and engineers, namely, that lack of demand accounts for the major part of the burden of idle overhead in years of slack business—and in years of so-called "prosperous" business as well—only rough estimates are available of the amount of machine idleness or human unemployment in industry.

As for serious or trustworthy studies of plant capacity, bearing upon the relation between the time operated by plants in the chief industries and possible time of operation, none seems thus far to have been made.

But beginnings of research in this direction have been made. The Federal Bureau of Labor Statistics has information from some 7500 plants which shows the changes in the proportion of full and part-time operation and idle plants for the years since 1922; these figures refer merely to the number of plants, and are not informative as to the margin of unused time. The estimates between actual output and capacity in each industry in the Census of Manufactures for 1921 and 1923, give only a general impression regarding the extent of

<sup>5</sup>*Ibid.*, p. 131.

<sup>6</sup>This is stated after inquiries sent to the following authorities, and receipt from them of negative replies: Wesley C. Mitchell, Director of Research, National Bureau of Economic Research; Warren M. Persons, Editor, *Review of Economic Statistics*, Harvard Committee on Economic Research; Virgil Jordan, Chief Economist, National Industrial Conference Board; Carl Snyder, Statistician, Federal Reserve Bank of New York, and Woodlief Thomas, Division of Research and Statistics, Federal Reserve Board, Washington.