

Robert E. Klise.⁹ There is one question I should like to ask. It has been shown in the paper and discussion that production management is not independent of markets. If we grant that premise should not production management concern itself with the application of standards to marketing problems?

For example, if a large city is planning to put in a new piping system, would Mr. Clark's firm advise the city to buy all the pipe at once or to build up the system through the years and thus help the company to a more uniform rate of production? This would make the standards within the producing organization less subject to change.

John Gurney Callan.¹⁰ I am in enthusiastic agreement with what Colonel Thompson has said. Frequent mistakes are made by the engineering and industrial crowd but in general they have made a better showing than the men who control finance and credit. I admit they have a harder job than we but I think I am repeating Colonel Thompson's idea when I say that if all the other jobs had been done as well as manufacturing and engineering we should not be in as much difficulty as we are today.

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Problems in Economic Security

1. For those who believe in individual responsibility:

Assume that there were such a universal habit of thrift that everybody—from bank president to humblest worker—so apportions his income that the necessary proportion is devoted to accumulating reserves against the major economic hazard of unemployment. Economic institutions and processes being what they are, the method of accumulating such reserves is by periodic payments out of income into fiduciary institutions. These institutions invest their funds in interest- or dividend-paying securities, retaining only a working balance in cash for normal current transactions. Questions: (1) What would be the effect of such saving on standards of living? (2) What would be the effect of the investments on production capacity? (3) What would be the effect on consumption, commodity prices, wages, dividends and interest? (4) In case of the sudden appearance of a depression and all people out of employment presented claims at the same time, how would the fiduciary institutions satisfy them?

Henry P. Dutton.¹¹ I want to compliment Mr. Clark on his paper. If the importance of standards were better understood we should have less discussion of the difficulties of wage-payment methods, and budgeting. Sound standards are the basis of these and many other things.

Following Mr. Blanchard's discussion Dr. Person brought out the point that we must have flexible standards. Going back to Taylor's work, it should be possible to do something even simpler and work out general standards, applicable to a whole series of cases. In "Shop Management" Taylor brings out the possibility of developing performance formulas, of expressing the variables in general algebraic equations. John Williams has worked out a formula for a flexible budget on the same principle. In a small business with which I was connected we worked out a formula which expressed the costs of the business as a certain fixed amount, say \$10,000 per month, plus say 40 per cent of sales. In principle the elements of nearly any situation may be put in terms of a formula. Even where precise values cannot be assigned to these terms it is often possible to work usefully with approximate values.

¹¹Associate Editor, *Factory and Industrial Management*, McGraw-Hill Publishing Company, Inc., Chicago, Ill.

2. For those who believe in company reserves:

Make the same assumptions and ask yourself the same questions, but recognize that the reserve funds would presumably be handled in one of three ways: (1) cash reserves in whole or in part; (2) investment by the company in industrial securities; (3) deposit by the company in fiduciary institutions which then make the investments; (4) cash carried by the State or investment by the State (directly or through deposit in fiduciary institutions) on behalf of all companies.

3. For those who believe in State compensation:

Ask yourself the same questions, but in this case the assumptions are modified as follows: Either (1) the State builds up a fund which it collects annually by taxes and holds this in cash or invests it in securities directly or through fiduciary institutions; or (2) during the period of depression the State collects its fund through heavy taxation or the sale of bonds.

Final question: does thinking about these questions lead to the conclusion that, with or without unemployment insurance, the underlying problem is one of avoidance of depressions?

Consumers' Retail Purchases, Pre-War and Post-War¹

Showing the Increasing Importance of the "Area of Caprice" in Consumer Buying

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Introduction

By PAUL T. CHERINGTON

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THE AMERICAN Marketing Society, which at the invitation of the Taylor Society arranged this meeting on marketing, is this morning making its first appearance. We began the process of organization in September and have now enrolled some two hundred members from the fields of marketing enterprise and marketing research. The organization will hold its first meeting in Washington in December in connection with the meetings of the American Economic Association but the appearance this morning is our initial public bow.

We sometimes think now of 1928-9 as a time when everybody was happy just as 1931 is regarded as a time when everybody is sad. But even in 1928 and 1929 there was much talk of "profitless prosperity" and even now some concerns are making money and some people are happy.

Business recovery probably will not take the form of a pleasant change in atmospheric conditions like the springing up of a northwest wind. It is more likely to take the form first of an occasional instance of success due to good management or good sense; and second of the gradual increasing of these until there is a better spirit abroad.

Recovery really needs better defining than it ever has had. It cannot mean the restoration of the profitless activity of 1928-9, nor can it mean planned prosperity in which individual initiative is subordinated to some comprehensive scheme. If it means anything it means the bringing about of conditions of more satisfactory living for more people.

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At least for most consumer goods the family is the eventual purchasing unit. Our prosperity of 1928-9 and thereabouts did not affect everybody, but it did reach a large number of the people. There were in this country at that time about twelve million family incomes which were safely above the subsistence level, with a surplus for spending or saving. Just as the prosperity did not reach everybody, so the depression has not reached all homes, but it has reached enough to cause a radical change in the attitudes of many whose basic income is not seriously impaired, even though the surplus income may be reduced or threatened. This change in attitude toward spending is in many respects more serious than the measurable shrinkage in earnings. If people will not spend, the fact that they can spend is of merely academic interest.

There is one point in this consumer's attitude at this time which may well be built into the thinking habits of every going business concern; namely, the fact that the consumer has become supremely careful in appraising merchandise as to its value-in-use to him. There are numerous instances on record in which, by good management, careful planning, and the exercise of supreme skill and intelligence by a manufacturer of consumers' goods, a maximum of value-in-use has been offered for a minimum price, and the offering has been met by immediate consumer response. And it is seldom, even in these times, that a supremely good value, from the standpoint of the consumer's own interest, has failed to receive the consumer's recognition. The problem is not merely one of lowering prices but rather of giving a maximum of value-in-use for a minimum price.

The deflated consumer is cautious, exacting, unhurried and intelligently selfish. Extravagant claims of makers or vendors leave him stone cold; emotional frenzies do not interest him. This may be a temporary and abnormal state, but there is nothing to be gained by ignoring it. What he wants is a maximum of value-in-use for a minimum of his tightly held money. Sometime he may again set greater store by superfluities and by elegancies but just now these elements of value are